

THE PEANUT PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON SPECIALTY CROPS
AND FOREIGN AGRICULTURE PROGRAMS

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

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REVIEW OF THE PEANUT PROGRAM

THURSDAY, MARCH 11, 2004

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON SPECIALTY CROPS AND
FOREIGN AGRICULTURE PROGRAMS,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:00 a.m., in 1300 Longworth House Office Building, Hon. William L. Jenkins (chairman of the subcommittee) presiding.

Present: Representatives Rogers, Neugebauer, McIntyre, Etheridge, Scott, Marshall, Alexander, and Stenholm [ex officio].

Also present: Mr. Bishop.

Staff present: Pelham Straughn, subcommittee staff director; Callista Gingrich, clerk; Teresa Thompson, Howard Conley, and Tony Jackson.

OPENING STATEMENT OF HON. WILLIAM L. JENKINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Mr. JENKINS. This hearing of the Subcommittee on Specialty Crops and Foreign Agriculture Programs will come to order.

Today we convene the Subcommittee on Specialty Crops and Foreign Agriculture Programs to review the Peanut Program. As all of you are keenly aware, Congress made historic changes to this program in the Farm Security Act of 2002.

A 1930's Depression era program was replaced with a Peanut Program for the 21st century. A supply management program using outdated quotas was replaced with a program that gave a safety net to producers while also giving them the freedom to make production choices that best suited them for each particular year.

I want to congratulate those producers who had the foresight to look into the future and see what was on the horizon. Imports from countries with decreasing tariffs had the ability to destroy the supply management system peanut producers had been operating under for years.

Peanut producers took a brave but necessary step in helping Congress change their program. I think Congress can be satisfied that we accomplished the goal of allowing the domestic peanut industry to stay vital far into the 21st century. This does not mean that the program is perfect.

I understand that there are producers who feel the program does not give them an adequate safety net, and producers who feel the

grading system is outdated and needs to be modified, and there are also questions about crop insurance for peanuts.

This hearing was called to listen to people familiar with all aspects of the peanut industry. We want to hear from them how this program is working. We also want suggestions on how this program might work even better. I look forward to the testimony of all the witnesses. And now the Chair will recognize the gentleman from North Carolina, the ranking member of this subcommittee, Mr. McIntyre for an opening statement.

OPENING STATEMENT OF HON. MIKE MCINTYRE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. MCINTYRE. Thank you, Mr. Chairman. Thanks to you and the subcommittee staff for holding this hearing on the peanut industry and providing a forum to discuss the status of the Peanut Program.

In 2002, the House Committee on Agriculture completed work on a comprehensive farm bill, and in the process, initiated a precedent-setting overhaul to the Federal Peanut Program. This farm bill has led to sweeping changes in agriculture production of all types, but this is especially true in my home State of North Carolina where our farmers are pleased to live in the State that is the third leading producer of peanuts in the Nation.

For more than 60 years, the supply and price management system dictated how peanuts were grown and marketed in this country. In fact, at its height, the U.S. peanut industry exported about half of its crop overseas. It generated more than \$4 billion in annual sales. However, as we know, the various pressures being brought about in some of the trade agreements, the international price competition, the global economy forced a change in the Peanut Program.

Looking ahead at competitive pressures from increased peanut imports, this committee recommended changes in the Peanut Program, and determined that the Depression era program was no longer feasible. With this new Federal Peanut Program, which has repealed the marketing controls and bought out quota holders, it is so important for us to see, in plain layman's terms, how is it going.

By compensating owners of peanut quota for the elimination of an income-generating asset, the peanut buyout set a precedent that will be followed when this subcommittee explores buying out other Federal supply management and price support systems of other commodities, such as tobacco. Therefore, it is doubly important that the administration of the peanut buyout, and subsequent program, are carried out as effectively and efficiently as possible.

There are going to be many questions we have for you today. We want to know the pros and the cons. We want to know what is working well, as well as what is not working well, and we would like suggestions. People always have a lot of questions, but if you have some suggestive solutions, many of you are the experts or those with experience and we look forward to hearing from you.

I know there will be several issues that will come before us today. In the interest of time and with the shortness of the sched-

ule today, I will conclude my remarks by again saying thanks to our chairman for this opportunity, thanks to all of our panelists in advance for coming to be with us and our other guests, and to our farmers, most of all, who made the trip to be with us, and we look forward to your comments today.

Mr. JENKINS. Thank you.

We have been joined by the ranking member of the full Agriculture Committee. The gentleman from Texas, Mr. Stenholm. Do you wish to make an opening statement?

Mr. STENHOLM. No, thank you.

Mr. JENKINS. And also, we are joined by the past chairman of this subcommittee, on my left from the State of Alabama, Mr. Everett. Mr. Everett, do you have an opening statement?

Mr. EVERETT. No. Mr. Chairman, I think you and the ranking member have summed up the hard place that we are in, and I appreciate your comments.

Mr. JENKINS. And the gentleman from Texas, Mr. Neugebauer, do you wish to make an opening statement, sir?

**OPENING STATEMENT OF HON. RANDY NEUGEBAUER, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. NEUGEBAUER. Just briefly, Mr. Chairman, to say I want to thank these folks for being here. We have some people from the 19th district here today, and I am glad to have them. As you know, Texas has become the No. 2 peanut producer in the country and a lot of the new peanut expansion is going on in the 19th district and it has been a real boom to our economy. We have some value-added opportunities that have availed themselves from the expansion of peanuts in our district, and we are very glad about that and glad to have these people with us today.

Mr. JENKINS. Thank you, sir.

The first panel consisting of Mr. Floyd Gaibler, Deputy Under Secretary for Farm and Foreign Agricultural Services is the panelist for the first panel, and sir, we are ready to hear your testimony when you are ready.

**STATEMENT OF FLOYD D. GAIBLER, DEPUTY UNDER SEC-
RETARY, FARM AND FOREIGN AGRICULTURAL SERVICES,
U.S. DEPARTMENT OF AGRICULTURE**

Mr. GAIBLER. Thank you, Mr. Chairman and members of the subcommittee. I appreciate the opportunity to appear today and discuss implementation of the peanut provision of the farm bill. Before I start, I would like to introduce the administrator of the Farm Service Agency here, Mr. Jim Little, as well as Michael Yost, who is our new FSA associate administrator for programs. He has come well recommended. Mike is a farmer from the State of Minnesota, with a diversified farming operation, so we are very pleased to have him on board.

Let me begin by complementing you and members of the full committee for your foresight and leadership in working with the peanut industry to adopt a market-oriented program for peanuts. In general, I believe the Department has been very successful in our overall implementation. Clearly, in 2002, we faced strong challenges in implementing the new program. After the crop was plant-

ed, we immediately instituted procedures to allow producers to use the non-recourse marketing loan program, and we have tried to make strides over the last year in improving it.

Similar to the other program crops, now the Peanut Program provides direct counter cyclical payments to producers. As prescribed by the farm bill, eligible quota holders were able to receive payments through the buyout program. The Department has paid over 95 percent of the buyout payments, totally nearly \$1.24 billion and only 8 percent of the nearly 70,000 quota holders have elected to use the annual installments option. The owners of peanut base acres have begun receiving their direct and counter cyclical payments. In 2002 and 2003, an additional counter cyclical payments for the 2003 crops were recently announced.

In transitioning to this new program, peanut producers have faced special challenges. Under the old program, price discovery and transparency were of little significance. However, under this new program, price discovery and market transparency are vital because they represent the mechanisms by which the market communicates to producers how much those peanuts are worth. In our efforts to address it in July of last year, we convened an inter-agency task force in the Department to fine tune that price discovery process. In this past October, we invited the industry in to talk about that and other issues and challenges that I will speak to. Perhaps the most significant impact of the new legislation has been that market conditions now determine the price for peanuts. As a result, there has been a shift in acres planted since the enactment of the bill.

We believe these shifts reflect changes in production practices, impacts of the quota buyout, exit of producers who retire marginal land or shift it to other crops. Nonetheless, producers have this year produced a high yield, high quality crop, and given currently supply-demand conditions, we believe the industry will experience record food use, exports maintained at significant levels, peanut crush showing strength, and imports having dropped off. So today we believe there is cause for optimism in this new market.

There are some remaining challenges that we have to address. One that we have discussed with the industry is shortening the current loan period for putting peanuts under loan. We have also raised the issue of a potential issue with a registration of a bio-competitive agent that is pending before EPA to minimize aflatoxin contamination. Our current process is to use a visual inspection to detect aflatoxin, but this competitive agent will produce a mold that is similar to aflatoxin and so visual testing will not work, and so we need to look at a different method to deal with that.

The new Peanuts Standards Board that was created as part of the farm bill deals with issues of quality and handling standards, and we will consult with them when we have our recommendations in place. Another issue is the so-called seg III Discount issue that has been raised as a concern, and we have assembled a group in the Department to deal with that issue as well. And again, we will consult with the Peanut Standards Board to try and ameliorate the concerns that are related to that.

In conclusion, the peanut industry continues the process of moving toward a market-oriented industry. As pricing data becomes

more readily available, USDA will continue our efforts to improve program delivery. As new issues arrive, we are committed to working with the Congress and the industry to reach viable solutions. And while change may not come as easily or as expeditiously as each of us would like, let me assure you that the Department is doing everything possible to assist producers in transitioning the peanut market loan program to meet the intent of Congress and ensure that it is market-oriented as are other programs.

That concludes the summary of my testimony and I would be happy to address any questions.

[The prepared statement of Mr. Gaibler appears at the conclusion of the hearing.]

Mr. JENKINS. Thank you, Mr. Gaibler. The Chair will pass the opportunity to ask questions at this time because there are Members here who may have other committees to report to or other duties. Mr. Stenholm, do you have any questions, sir?

Mr. STENHOLM. I will defer to the subcommittee.

Mr. JENKINS. Mr. Marshall.

Mr. MARSHALL. I am going to get Mr. McIntyre in here so I have more time to think about this.

Mr. JENKINS. You are going to bring him around?

Mr. MARSHALL. Thank you.

Mr. JENKINS. The gentleman from North Carolina, Mr. McIntyre.

Mr. MCINTYRE. Just a brief question. I have been told and I just wanted to clarify for the record: the USDA may be creating a division within the Department to specialize in aflatoxins, and to determine the effectiveness of visual tests of peanuts versus implementing a chemical test. And I would like your comment with regard to that.

Mr. GAIBLER. Well, we have not created a division. We do have this inter-agency task force that was assembled last year at the direction of the Under Secretary to look at all issues that are pending and have their concerns been raised. And this issue of this bio-competitive agent has been one that has surfaced and we have put together a working group of various agencies: the Agricultural Marketing Service, Farm Service Agency, some other groups, to look at this. We are not in the process of trying to form any division or anything like that. We are simply trying to look at what our alternatives are if this agent is registered by the EPA and made applicable or available for use for the 2004 crop.

Mr. MCINTYRE. Thank you, Mr. Chairman.

Mr. JENKINS. The gentleman from Alabama, Mr. Everett.

Mr. EVERETT. Thank you, Mr. Chairman. To begin with, I appreciate your testimony. You have addressed many of the issues that I know the committee had an interest in. Seemingly, it is very unfair that the producer is penalized 65 percent, or has suffered a 65 percent discount on the loan rate for seg III peanuts. And the unfairness is, of course, if they can be cleaned and then the buyer would receive full commercial value. Hopefully we can do something about that in short order, but I appreciate your addressing of that.

Mr. GAIBLER. Well, yes, Congressman, again, we have put together another working group, a separate working group, to look at this whole issue. We have had various discussions with the pro-

ducers and the other segments of the industry about this issue. I would note that the 65 percent discount is consistent with the other discounts for our other program commodities. So in, for example, the case of corn, if aflatoxin does appear and that product was put under loan, it would be faced with the same discount. And of course, that is there, obviously, to protect the collateral of the Commodity Credit Corporation in the event that that product would be ever forfeited to the CCC.

Mr. EVERETT. Now, forgive me for not knowing. We don't grow a lot of corn down in LA, lower Alabama, but can corn then be cleaned and redeemed at full value?

Mr. GAIBLER. Well, I think in the instance of corn, depending on the level of toxicity, it can be cleaned and/or blended down to a level where it is acceptable. But in some cases, it is allowed only for feed use, so it can't go out as a No. 1, a potential food-grade use.

Mr. EVERETT. OK. And do you have any idea of when the EPA will make a ruling on the biocompetitive agent used to treat aflatoxin?

Mr. GAIBLER. We have had some contact with EPA. We are told that there are efforts being made by the Agency to try and get this registration cleared this year, so that is part of the urgency. We are operating under the assumption that they will, and so we felt the need to try and get on top of this and not have to be facing this situation when the 2004 crop comes around and we are not in a position to address this issue if a producer brings in the product, peanuts, and it has the mold but it is not the aflatoxin mold. A chemical test is the only way we are told to deal with that, so we have to find a way to make that work that is not going to be a potential unburden cost to the industry.

And I think the good news is that I think the aflatoxin issue seems to be an issue that is getting better under control. A lot of this is driven by the fact that there is heat stress that is on in the soil and in the plant that really is the driving force behind the cause of aflatoxin, and there has been a lot of increase in irrigation for peanuts and that has helped ameliorate the situation. So I think the industry is working very hard to try and minimize the impacts of aflatoxin, but at the same time, if this agent is available, and we are told that is a fairly effective inoculate, that we will have to deal with it.

Mr. EVERETT. And Mr. Chairman, I don't have any other questions. I do have a few brief comments, though this has historically been a tough issue for us. We have had to defend the Peanut Program over and over again, basically, for the quota situation. And it is kind of like Mr. McIntyre referred to, we have reached a point that import peanuts are going to put the industry out of business. There is just no doubt in my mind about that, and I want to, as you did, say my appreciation to the producers. Farmers don't like change. They really don't. Mine don't. Yours don't. But they recognize the fact that NAFTA was going—because of the decrease in tariffs and the limited amount of peanuts and kernels that could come in, it was going to kill the industry. There is just no question about that, and so I just appreciate all the producers that made a step out in faith.

I understand that we were not able to construct the program so that every single person got everything they wanted, and I regret that. But we did, in my estimation, save the industry for this country and it did not go offshore. And I say that as a person who chaired the Anti-NAFTA Task Force along with our friend, Duncan Hunter, for the Republicans. But thank you for calling this hearing, and I want to thank these producers for their step out in faith on that program.

Mr. JENKINS. Well, thank you, Mr. Everett. The gentleman from Georgia, Mr. Marshall.

Mr. MARSHALL. Thank you Mr. Chairman. I appreciate the opportunity to get a little more educated about the program that we currently have in place. And in your testimony, which I have not had an opportunity to read in full, you talk a lot about transparency as being critically important to the process here. And as I understand it, transparency in this instance means that the government is asking for an awful lot of information to be provided by private business that private business normally would not be providing the government, to the extent that some feel that they might as well just turn over the keys of the business to the government and let the government run the business. So they are concerned that the government is much too involved in making requests for information, and wondering where that is going to lead to, and questioning to what extent the government really needs the information that it is seeking. And I would appreciate comments about that if you could give them to the panel.

Mr. GAIBLER. Certainly, Congressman Marshall. When we talk about the need for market transparency in setting the Loan Repayment Rate, we have to be able to get price information and we are asking for public price information so that we can adequately reflect what the supply/demand situation out there is. What we use right now are public prices, we use the Agricultural Marketing Service prices that have been provided for several years and were reported. We use the NASS, National Agricultural Statistics Service, all peanut prices that has been published and made available since 1955.

What we have asked, and had discussions with the industry, is to try and build on some of those price series, in particular, the NASS price series. Right now, it is just a monthly price and it is an aggregate price of all types of peanuts. What we would like, and we have suggested, is that we would like to have that reported on a weekly basis, and we would like to be able to differentiate between the four types of peanuts and by region, so that we can get a better flow of and understanding of what is going on there.

The other piece of it is that we are not sure whether some of the prices that we get beyond the NASS price are just quotes or do they reflect actual trades, and if it is an actual trade, is it 1 lot? Is it 10 lots? What is the significance behind it? We also look at the international prices, and again, most of those are quotes and not necessarily actual trades. So that is what we are talking about. And we are not asking the industry to provide any more information than what is already being reported publicly through either the Ag Marketing Service or NASS.

Mr. MARSHALL. All right. If I understand, and I may not and you might have to elaborate just to educate me, what you seem to be saying is that you are asking "the industry," which means that you are going to have to go beyond that since there is no such thing. You can't just go find the industry as an individual, you have to go to individuals, human beings, businesses, and ask them for specific information that they would not normally give. And the reason they wouldn't normally give it—having been in business myself, if I cut a good deal, why should I share the fact that I gave somebody a good deal with the next guy that comes in with a load of peanuts? It just seems to me that that bargaining relationship and the ultimate agreement as between the parties, in many instances, is something that people prefer to keep secret, and you are asking that it be published. And if there is already a readily available index that you can obtain, then that sounds to me to be fine. I wonder to what extent you need to go beyond the Index and ask for specific information from specific businesses about specific deals.

Mr. GAIBLER. Well, again, we are not asking for any more information than what is provided. What we are asking for is to get more of that information reported on a weekly as opposed to a monthly basis. We are asking, if they can provide that, to provide that information by the four types of peanuts. Again, part of the problem here is that, unlike the other major program crops: wheat, corn, soy beans, we don't have a futures market. We don't have a terminal market. We don't have the infrastructure that the range of buyers of products of corn. They can sell it to feed lots. They can sell it to ethanol plants. They can sell it to elevators, so there is a myriad of price information out there off of which we can run the Marketing Loan Program for those commodities, and in the case of peanuts, that is not the same case.

But in order for this program to work properly so that the products will adequately clear the market, we have to have some indication of what the market is reflecting out there, what the price is so that we can follow that. The Loan Repayment Rate is a proxy for the market price, and all we are trying to do is build upon that.

And I will just add that one way we are going to try and figure this out a little bit better is ask a third party. We are going to have some independent third party provide us some analyses and see if we are on the right track. And if they have got better suggestions, we are certainly willing to take advantage of it.

Mr. MARSHALL. I see my time has expired, Mr. Chairman. I appreciate the opportunity, and thank you, Mr. Under Secretary.

Mr. GAIBLER. Thank you.

Mr. JENKINS. Thank you, sir. The gentleman from Texas?

Mr. NEUGEBAUER. Thank you, Mr. Chairman. Mr. Gaibler what responses have you received from the peanut industry on your proposal to shorten the loan repayment period?

Mr. GAIBLER. Well, we have had discussions with the industry, and we really haven't had a solid position, or I don't recall even receiving anything in writing in terms of an official position. The impetus behind us wanting to do this is that under the previous program, peanuts were required to be delivered to the buyers by the end of June, before the beginning of the marketing year. That gave

the warehouse operators the opportunity to clean their warehouses out, and for the shelling industry to refurbish equipment, et cetera.

But under the new program, they have used the traditional 9-month loan that is prevalent with the other program commodities, and our concern is that unlike wheat and corn, peanuts are a perishable commodity and they are subject to deterioration, and we thought that it would make sense, if we could, by a date certain, and we picked June 30 to have all the loan periods correspond with that, and would help in the marketing process. But we have proposed this as an idea and we would only move forward with it unless and until there is complete consensus with the industry.

Mr. NEUGEBAUER. Have you seen any deterioration in the quality of the peanuts that have been stored in the current marketing period?

Mr. GAIBLER. In my testimony, I point out that of the 2002 crop that was put under loan, we only had about 2,700 tons of that, and there is really only a few hundred tons left that have been forfeited that we have not sold back to the industry. And, I am told that the lots that are in that 600-odd tons, or whatever that number is, that about half of them are of inferior quality, of lower quality, so that is really the only experience that we have had, but we do know that there are—you can have a situation where if peanuts are held in storage and not maintained while they are in the shell, that they can deteriorate and the quality maintains and so we are fearful or concerned that if peanuts are forfeited, we would like to make sure that they are of the best quality possible.

Mr. NEUGEBAUER. What is the time table of this implementation if you move forward with it?

Mr. GAIBLER. On the loan period?

Mr. NEUGEBAUER. Yes.

Mr. GAIBLER. Well, it all depends upon when and if the industry agrees that it makes sense, as well as the committee. In fact, as we have visited with the committee staff, here and on the other side, about the issue, certainly you would want to make sure that if it was done for this year, you would have to do it so you don't negatively impact the upcoming crop. And it would require some change in legislation to do that, so it is not something that we could do administratively.

Mr. NEUGEBAUER. I certainly want to encourage you to work with the producer groups because we have brought about change in this program and we need to make sure that we don't disrupt this movement into a new type of peanut program here. You talked about our competition with Argentina and China and other nations. How does the U.S. peanut price and quality compare with other nations around the world, and what are some of the things that you are working on so that we can increase the exports for U.S. peanuts?

Mr. GAIBLER. Well, I am told that our quality is very good again in comparison to other countries. I think there has been an increase in quality of peanuts by our competitors, particularly China and Argentina. But I think what you see happening right now is that with a change in our program, you are seeing a shift here in terms of dynamics. In the past, the tariff rate quotas for Argentina and Mexico traditionally get filled the first day that they are open.

In the case of Argentina, it is only 35 percent filled, and I think it is less than that with Mexico.

In fact, we are projecting that exports will actually increase this year after being on a long-term decline. So what we are trying to do is look at the world supply/demand information, and, again, try and make sure that we are pricing or that we are setting the loan repayment rate right in a manner that will reflect the ability of peanuts to be sold either domestically or exported. And so we continue to look at that.

But, I think there is going to be, at least over the short-term, continued opportunity for peanuts to compete internationally. Long-term, that may change. Again, we are seeing record food use this year and that trend may continue.

Mr. NEUGEBAUER. Mr. Chairman, my time has expired.

Mr. JENKINS. Thank you, sir. The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Mr. Under Secretary, last year, along with a number of my colleagues, Mr. Kingston, Mr. Bishop from Georgia, Mr. McIntyre from North Carolina, and Mr. Rodriguez from Texas, wrote the Risk Management Agency to inquire about changes in the Peanut Crop Insurance Program, and we wanted the Agency to allow peanut growers to purchase coverage up to their contract price levels. RMA responded, saying this was something the Agency was looking into. Last month, I followed up with RMA to see what progress was made. Officials told members of our staff that RMA was conducting a complete overhaul of the Peanut Crop Insurance Program to be completed by 2006. You can either count it as 2 years or 3 crop years, depending on how you want to figure that. You didn't discuss this in your testimony. But given your oversight of RMA, can you share with this subcommittee any details about efforts in this area and what our efforts can expect, because you know the details? They invest in the money and the crop insurance really is not making a lot of sense for them right now.

Mr. GAIBLER. Yes. The RMA is looking at this, and in fact, I think they are really looking at it in a multi-stage process. They are looking at trying to put a proposed rule that would make some initial changes in terms of how optional units are treated. Under the previous program, they were tied to farm serial numbers and under the other crop insurance programs with other program crops, they are tied to sections, and they are going to make the modification there.

They are also looking at this whole issue of the contracts, and that may be addressed in a rule as well that would try and be effective for the 2005 crop. What I am told is that for commodities that they currently use contracted price. Those are fixed price binding contracts, and as I understand the current contracts that are offered for peanuts, are options contracts where the sheller is not necessarily bound to the contract of purchase. So, we would have to work through those sorts of issues.

The other issue I hear raised is the desire to increase the coverage over and above up to the 75 percent level. And again, we would entertain any private sector interest in that, approaching

RMA to deal with that, but we would have to make sure that it is actuarially sound.

Mr. ETHERIDGE. I think that is what farmers are looking at, because currently, when you have a contract and you cover for the insurance and the amount you get back as it relates is well below your cost. And at a minimum, we ought to be able to get it to cost and I hope you will look into that. Get back to us on that, if you would, please.

Mr. GAIBLER. I will.

Mr. ETHERIDGE. Cull a schedule on that and how we can expedite it.

In the 2002 farm bill, it established a Peanuts Standards Board. A producer, as you well know, Sheldon Food Industries Group, is to provide input to USDA on developing quality and handling standards for domestic produced and imported peanuts. In his written testimony, Mr. Bain has characterized the Peanuts Standards Board as a major disappointment. He will be testifying later. My question is what is the status of the work of the Peanuts Standards Board? Have you received any complaints from the Board? And what kind of feedback have you received from the Board, if you have received feedback?

Mr. GAIBLER. To be honest, Congressman Etheridge, I have not personally received any feedback one way or the other about the Peanuts Standards Board. Again, we have raised the issue of this segregation III discount, and the AflaGuard biocompetitive agent issue as something that we feel the Peanuts Standards Board has a role in playing in and so we are going to engage them. But I have not heard, myself, personally. We may have heard elsewhere within the Agency, but I, myself, I have not.

Mr. ETHERIDGE. Would you mind checking with your staff and getting back to us on that, if you would, please?

Mr. JENKINS. Thank you, sir. The gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you. I want to ask you a couple of questions about the competitiveness with international markets products. How can producers be fully competitive in the international marketplace when the Department has maintained a loan repayment rate far in excess of the world market price for peanuts?

Mr. GAIBLER. Well, I guess the first thing that I would say is that in the case of most commodities, the export market is a residual market, and in the case of peanuts, domestic use has been the dominant use of those peanuts. Some go to crush, and oil markets as well. And what we are trying to do is look at the loan repayment rate in terms of both what the international prices are as well as the domestic prices. We look at the international prices, and if you will—as you will note in my testimony, the exports are actually going to increase this year above the lower levels. We put a chart in there that put a linear trend line that showed that over the last 10 years, exports have indeed been declining.

I think the most important thing here is that we need to let the market determine where their best use is. And if the increase in domestic demand continues as it looks like it might because of the changes in the program, I think producers will be adequately rewarded through the marketplace. But again, we are not trying to

determine where peanuts should be marketed. We are simply relying on what the marketplace is telling us, and allowing the loan repayment rate to reflect that.

Mr. SCOTT. With prices being marketed internationally at a price much lower than the level of prices in the United States, what is this pricing difference? Would you give us some idea of what the difference in pricing is?

Mr. GAIBLER. Well, it depends on the origin of the peanuts, the export origin, and it also depends on the country. In the case of China, they have always been able, and seem to be able, to undercut other competitors to a large extent. And, so, in some cases, they could be \$50, \$75, maybe even \$100 potentially below our price, or rather other prices. But we have seen those prices narrow in the last few years, at least in the data that we have looked at, and the margin of differences is not that great. I mean, we are getting international price quotes that are in the \$350 to \$360 level right now, so that is not much differentiation there between that and what the current loan repayment rate is.

Mr. SCOTT. And my other question is this peanut quota structure and the import restrictions, what do they mean to the U.S. manufacture, the U.S. producer, and the consumers, in terms of cost to the Peanut Program?

Mr. GAIBLER. Well, I don't have a good answer in terms of what the cost would be. Traditionally, under the old program, there were tariff rate quotas and those quotas are still in effect to limit the amount of imports that can come into the country. And again, what we are seeing is that those imports have dropped off. Argentina, for example, has not been able to find it as competitive to import peanuts into this country. And in fact, they have shifted their exports primarily to the European markets, so I don't think it is having a negative impact on either consumers or producers in this country.

Mr. SCOTT. Thank you very much. I appreciate that. In Georgia, we are increasing our acreage and looking very positive, so I appreciate your answers.

Mr. GAIBLER. Thank you.

Mr. JENKINS. The gentleman from Texas, Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman. Welcome, Mr. Gaibler.

We are going to hear from some producer testimony in a moment that is concerned about USDA no longer collecting assessments for the National Peanut Board and State Associations. Are there plans for USDA to continue or, well, if you have stopped—you used to do it pretty faithfully but is something saying you are not doing it now. Why?

Mr. GAIBLER. Well, the reason that we are not doing it is that the Office of General Counsel has told us that there needs to be a specific legislative change that would be needed for us to authorize to collect these assessments. So without that specific legislative change, we are not in a position to do that.

Mr. STENHOLM. But we did it illegally for many, many years and we have suddenly gotten legal. Mr. Chairman, that is something we might want to consider in this committee: looking at authorizing that language, because it is very helpful to our overall peanut effort. Mr. Chairman, a little kudos to Chairman Everett who shep-

herded this legislation through the 2002 farm bill. I would be happy to know budget-wise, since we are going to be talking a little bit about that over the next few days, that the peanut Title of the farm bill in 2004 came in 126 million below what is estimated the cost. For 2005, it is 198 million below what was estimated to be cost. And for the life of the farm bill, we are estimating a savings of \$711 million which was what we advertised it to be. It is nice to see that coming in in that way.

Mr. Gaibler, we recognize that domestic consumption has gone up, which is one of the things that we wanted to accomplish by making our peanuts price competitively so that the domestic use would be able to use more domestic peanuts. We are seeing that happen. What we are not seeing happening, or in fact, we have seen a loss of export markets. Exports have fallen from an annual average of 645 million pounds in 1997 to 2001 to an average of 495 million pounds 2002 and 2003. What is causing that?

Mr. GAIBLER. I think a lot of it is driven by the fact that over the last few years, China has become a much stronger player in the international markets, and it has been a combination of other factors that have led to this long-term decline. But again, I think the fact that we are in a more market-oriented program now, we are seeing, at least for this year, where peanuts are actually going to be exported. Part of that is driven because there are supply problems in both Argentina and China. In the case of Argentina, it is because of dry weather, and China, it is wet weather that has reduced the amount of the crop there.

But I think if the program is run correctly, if we are reflecting what the market supply situation is for peanuts, and they are competitive, that the export market will be there for our peanut producers.

Mr. STENHOLM. I believe in your testimony you indicated that in the administration of this section of the peanut title, you are having a little bit of difficulty with price discovery.

Mr. GAIBLER. That is correct.

Mr. STENHOLM. I can understand where that would be a challenge. Do you have any more specific recommendations, or something that you are considering perhaps, that will get a little more transparency into the market, both domestic and foreign, that might help? I mean, theoretically under our program now for peanuts, as well as cotton and wheat, et cetera, we can set our price at zero to stay competitive. Wouldn't be smart necessarily, but if we have concerns, and we all do, with the Chinese currency question, I believe they have got about a 40 percent advantage over any product that we are selling right now as a result of their currency. That is a pretty good hill to climb for, in this case, peanuts.

Mr. GAIBLER. Yes, you are correct. Well again, as I had mentioned earlier, we are trying to build on an existing price series that is reported by the National Agricultural Statistics and the Agricultural Marketing Service. We are trying to get more intelligence on world supply/demand conditions. We have tried to work through our Foreign Agricultural Service and our ag attaches, ag counselors, trying to get better price information, better information on what is being traded and at what price. And as I mentioned as well, we are going to go out and ask an independent third-party

consultant that has capability to take a fresh look at the program and how we are administering it, and seeing if they can come up with any suggestions, recommendations, that we have not fully explored.

And at the same time, we are going to continue to work with the industry. They have been very helpful, very positive, and offered some advice as well. So we are trying to work cooperatively with everyone and we do really want to get better price discover and market transparency because really, in the end, you have to have that to make the program work successfully, as you well know.

Mr. STENHOLM. Agreed. Thank you.

Mr. JENKINS. Thank you, Mr. Stenholm.

Mr. Gaibler, let me follow up on the question Mr. Stenholm asked about assessments. Am I correct in my understanding that some States have passed statutes that allow those assessments to be collected at the State level by either the States, or an agency, or a State-chartered organization in some of the States? Do you have any knowledge of that?

Mr. GAIBLER. I am told that Alabama might be in that situation.

Mr. JENKINS. And it may be that the best remedy for everybody concerned ultimately will be assessments collected at a higher level. Is there any reason why that remedy and convenience would not be available to the other States in the Union, including Texas, to facilitate the collection of those assessments?

Any reason that you know of?

Mr. GAIBLER. None that I know of, no, I do not, but I don't have full information on that, so I am speaking without full knowledge.

Mr. JENKINS. Well, thank you, Mr. Gaibler. We appreciate—

Mr. STENHOLM. Mr. Chairman, can you hold on that for just a moment?

Mr. JENKINS. Yes, sir.

Mr. STENHOLM. I would just really be curious since historically the Farm Service Agency has collected these assessments, and historically FSA has always done that which is required of it by the farm bill, the general direction, or in this case, we are talking about research and promotion. And unless the research and promotion program is not a valid law, I fail to understand how any attorney in 2002 could come to a different conclusion than attorneys have come to before of saying this was a legal program authorized by the United States Congress. But suddenly someone gave a direction to FSA saying you can no longer continue to be a helpful participant in a duly authorized program by the Congress of the United States.

If you can't answer that question today, and I suspect you can't, I think that is something I would like to see you submit for the record for this hearing, so that we might get the directions, or the chairman might get the direction of which way we need to go and why.

Mr. GAIBLER. Well, I would be happy to do that.

Mr. JENKINS. And Mr. Gaibler, if there are other questions submitted in writing, will you be available to respond to those?

Mr. GAIBLER. Yes, most certainly.

Mr. JENKINS. Thank you for coming, sir. We are ready for the second panel now. I will introduce them.

First is Mr. Billy Bain, the president of the Virginia Peanut Growers Association from Franklin, VA; Mr. Jimmy Cheney, the chairman of the Georgia Peanut Commission, from Edison, GA, and he is here on behalf of the Southern Peanut Federation; Mr. Ted Higginbottom, the president of the Western Peanut Growers Association, Seminole, TX; and Mr. Bob Sutter, the CEO of the North Carolina Growers Association from Nashville, NC.

Gentlemen, thank you for being here. And Mr. Bain, you are at the top of the list and we will start with your testimony.

STATEMENT OF BILLY BAIN, PRESIDENT, VIRGINIA PEANUT GROWERS ASSOCIATION, FRANKLIN, VA

Mr. BAIN. Thank you, Mr. Chairman, committee members. My name is Billy Bain.

Mr. BAIN. Mr. Chairman, committee members, my name is Billy Bain. I am a diversified row crop farmer from Dinwiddie County, VA. I am president of the Virginia Peanut Growers Association, as well as vice-president of Peanut Growers Cooperative Marketing Association.

I must say that the Peanut Program ushered in the 2002 farm bill was not very well accepted by peanut growers in our State. Prior to 2002, we grew approximately 75,000 acres of peanuts. When the farm bill was being discussed in the spring of 2002, our growers did not know exactly what to do, so we only planted 56,000 acres of peanuts that year, and in 2003, we dropped to 33,000 acres. It is our hope that we are at the low now, that this will be the lowest that our acres will go.

I am always questioned about why the drop in the acres in Virginia, why do we perceive the farm bill different than some other States. Our main thing is the type of peanut we grow in Virginia. The cost of production is higher than any other State. Combine that with that we have had two bad years in a row, and with the absence of a good crop insurance program, many of our farmers have chosen to stop planting peanuts or reduce acreage dramatically.

I must take this opportunity to address the crop insurance situation. Current policies are woefully inadequate and do not even cover our farmers' production costs. It seems that inquiries to RMA are always answered with the same response, and that is "there is not enough time to make policy changes for the upcoming crop year." If a crop insurance policy is not even going to cover the cost of production, then it is useless. We have repeatedly expressed an interest in a policy that catered to either the cost of production or a contract price, but have not been successful thus far. Time is running out for us and we need help and ask for your assistance in adequately protecting our farmers.

As you can imagine, peanut producers from our State have not whole-heartedly welcomed this program. I do have some particular items to bring to your attention, some with successes and some with concerns. I will start with the Peanut Standards Board, which has been a major disappointment.

We in the peanut industry used to have a model peanut quality program called the Peanut Administrative Committee, or PAC, which was embraced and recognized as a model by the industry,

other commodities, and the FDA. I am afraid we no longer can lay that claim on the advent of the Standards Board. The PAC meetings used to be a series of subcommittee meetings during which issues were thoroughly discussed and finally voted on at an annual meeting.

Representatives of many industrial segments attended these meetings in addition to the committee members. Now, there is little industrial participation other than the committee members. The grower members from my area have expressed that their participation on the committee is essentially useless, and that their concerns fall on deaf ears and it usually appears that issues have been decided before the meeting even begins. When AMS requests comments on issues, they are submitted but yet have not been acknowledged or answered.

There are two major quality issues under discussion in the industry, with these being the possible elimination of seg III category, and off-flavor peanuts and how the system treats them. I do not believe these issues should be decided by the Standards Board, as I am afraid the decisions made will be detrimental to our industry. USDA's concerns must be taken into consideration, and issues such as CCC inventory costs cannot be ignored. I take pride in the quality of peanut I spend my money on to produce. The U.S. is world renowned for its quality of peanuts. Unfortunately, I question whether PAC's goal, or even stringent quality guidelines, has been carried forward by the Standards Board. I urge you to look into these pending issues before they also become rubber stamped without all parties being able to have their concerns thoroughly debated.

I do applaud your efforts to assist USDA in establishing designated marketing associations, or DMA's, for the 2002 crop year. One of the organizations on which I serve was a DMA for the V-C area and it operated successfully for the benefit of the producers, the shellers who participated, and the association. I urge your continued oversight, however, in assuring that only legitimate producer cooperative associations are allowed to qualify or operate the DMA. The process should not be open to those who have financial interests in the peanuts involved as this was specifically stated as not being the intent of this committee.

I commend USDA for the implementation job done so far. Progress has been made, evidenced by the electronic warehouse receipts issued in our area this year. However, I caution we cannot dismantle all tools that the industry has come to rely on. The National Tonnage Report was reinstated this year after being absent in the 2002 crop year. It was a most useful tool for many in our industry. There has been much discussion about the elimination of the 1007 document, which is the growers' evidence of grade and dollar value of the load delivered. It is necessary that the grower continue to receive this form as without it he would be at a loss to keep track of what he delivered and was paid for. I urge the Department to continue the use of the 1007 form. Most growers would also prefer the Smart Card, or at least a Farm ID card or the 1003, be brought back to assist producers and FSA in data collection.

As evidenced by these comments, we will continue to have issues on which critical decisions must be made. Any decision made by

USDA, AMS, or other agencies in which the industry input is needed, must be open to all participants, particularly all growers, regardless of size of growing region. I urge USDA to continue the implement process in a fair manner, remembering the equal needs of all those who are affected by their actions, but also keeping in mind the integrity of the program in protecting the interests of CCC.

I appreciate the chance to make these comments as our growers and associations stand ready to help in any way necessary. Thank you.

[The prepared statement of Mr. Bain appears at the conclusion of the hearing.]

Mr. JENKINS. Thank you, Mr. Bain.

Mr. BAIN. Thank you.

Mr. JENKINS. Mr. Cheney, and let the Chair ask the witnesses, if you can, to stay within the 5 minutes, and that way we will be assured that all these Members who have other, perhaps, committees to go to, will be assured of being able to ask their questions. Mr. Cheney.

STATEMENT OF JIMMY CHENEY, CHAIRMAN, GEORGIA PEANUT COMMISSION, EDISON, GA, ON BEHALF OF THE SOUTHERN PEANUT FARMERS FEDERATION

Mr. CHENEY. Thank you, Mr. Chairman. Members of the subcommittee, my name is Jimmy Cheney. I am chairman of the Georgia Peanut Commission's Board of Directors. I am here today representing the Southern Peanut Farmers Federation, comprised of the Georgia Peanut Commission, the Alabama Peanut Producers, and Florida Peanut Producers. Accompanying me are Larry Ford, president of the Florida Producers, and Jerry Byrd, treasurer of the Alabama Producers.

The Southern Peanut Farmers Federation is the largest peanut producer organization in the United States. We produce 65 percent of the peanuts grown in the country in the last year. Thank you for the opportunity to testify today. I produce approximately 600 acres of peanuts on my farm in Calhoun County, GA. I am a lifelong peanut producer. Under the old 2002 farm bill program, I was a quota holder and a peanut producer. The Southern Peanut Farmers Federation supported most of the changes this House Agriculture Committee made in the Peanut Program. These changes gave America's peanut producers hope for a future in Agriculture. I personally think the peanut industry was doomed under the old program.

Mr. Chairman and Members, I can report to you that the majority of American's peanut producers are in a better economic position today than prior to the changes in 2002. The Southeast has seen increased acreage of peanut planting in new areas of the Peanut Belt for the very first time. An industry in trouble has begun to stabilize.

Make no mistake about it, Southeastern growers are grateful for our new program. It began in this House Agriculture Committee and it works for the peanut producers. We thank you for this work and that effort.

Although the regulatory process has been quite difficult for producers, this past crop year supported by adequate weather conditions allowed growers to produce a good crop in the Southeast.

Despite Congress producing legislation that moved the peanut industry into modern competitive agriculture, we do have some regulatory concerns. USDA was not prepared for the new program as established by the 2002 bill. Growers during the 2002 crop produced peanuts without assurances of how their product would be bought and what their ultimate financial return would be. This was a challenge for farmers.

The regulation of the 2003 crop improved in most issues. One prominent issue still of concern for producers is the loan repayment rate. The Department's current formula has, over time, caused the demise of the U.S. peanut export market. Customers around the world, developed through years of business relationships, have been lost to other peanut exporting countries because our loan repayment is too high. Recent low production levels for some major exporting countries has placed the loan repayment more in line with conditions, but it is quite evidence the Department is not considering the prices offered in the marketplace by our competition. The Congress' message in the 2002 farm bill that prices from other peanut exporting nations are taken into account in setting the loan repayment that has been ignored by USDA. Peanut State representatives have urged the Department to reevaluate its loan repayment rate to no avail. We hope the committee will continue to review the loan repayment rate calculations, and encourage the Department to help the industry recapture its export market.

Peanut quality segregation issues continue to trouble the Southeast. USDA has maintained through regulations the segregation of peanuts as under the old program, even though it wasn't required by the new legislation. The 65 percent is the legislated loan rate. The producer is penalized, but there are no restrictions on these peanuts going back to commercial use. If a lower loan rate is necessary, it should reflect the commercial value of the peanut, not an arbitrary rate established by the USDA.

The method of determination of seg II's and III's have remained unchanged since the mid-'60's, despite tremendous advantages in technology. We are trying to work with the USDA, and have presented them several options. Movement is slow and we feel that without a message from you all, the USDA will not be resolved.

The USDA moved quickly to change the structure of administering the Peanut Program after the 2002 bill, but this has not eliminated the old program mentality at the Department. Growers asked Congress to eliminate our supply management structure and Congress agreed, yet the Department continues to view the Peanut Program as one whose production should be highly regulated or controlled. We would hope your committee will encourage USDA to assist producers to grow in the world marketplace and not become trapped in the old 2002 farm bill mentality.

USDA Agencies and Agency divisions must work together to administer the new program together. Without a coordinated effort, U.S. peanut producers will not be competitive in the world market. This is critical to the long-term success.

We hope the committee also will diligently monitor the impact of the upcoming trade agreements on U.S. peanut producers. Prior to the 2002 farm bill, peanut producers opposed every major trade agreement before Congress. We hope future trade agreements can merit our support, and they will promote significant growth for U.S. producers.

USDA's Market Assistance Program and the other promotion assistance programs should include domestic processed peanut products that could be exported finished goods. Currently, branded promotions are not allowed under these programs. They should not only be allowed but encouraged due to the value-added nature of the product exported. Branded promotions should also be allowed for foreign manufacturers with only U.S. peanut origin and so.

Finally, as peanut producers transition to a more market-oriented industry, we ask you to encourage USDA to facilitate additional marketing options for producers. Opportunity for growers to market their products is very limited. Our new programs should produce additional opportunity. We believe USDA can help educate and encourage our industry in the use of it.

We appreciate the interest this committee has shown in our industry. With a program that worked for many decades, it became time for a change. The House Agriculture Committee's leadership allowed us to save an industry quickly disappearing in our country. Thank you for your help and cooperation in making changes. I thank you again for allowing me to testify.

[The prepared statement of Mr. Cheney appears at the conclusion of the hearing.]

Mr. JENKINS. Thank you, Mr. Cheney. Mr. Higginbottom.

STATEMENT OF TED HIGGINBOTTOM, PRESIDENT, WESTERN PEANUT GROWERS ASSOCIATION, SEMINOLE, TX

Mr. HIGGINBOTTOM. Mr. Chairman and members of the committee, I am Ted Higginbottom and president of the Western Peanut Growers Association. Western Peanuts Growers Association represent growers who produce approximately 80 percent of the peanuts grown in Texas. We appreciate the opportunity to present our views on the new marketing loan program for peanuts, which was enacted as a part of the 2002 farm bill. We believe that this new program offers peanut growers new opportunities that were not possible under the prior peanut quota system. The quota system became unsustainable in the face of mounting challenges, including the prospect of more peanut imports under current and future trade agreements.

Under the previous program, many of our members were unable to own or rent quota and were precluded by law from selling peanuts in the domestic market. We believe the new program has served our area well by enhancing market opportunities while providing a much-needed safety net for all producers. Therefore, Western Peanut Growers Association would like to thank this committee for its effort and leadership in establishing the new Peanut Program.

The transition to this program has gone smoother than anyone one could have ever hoped for. Much of the success in the implementing of the new program is accredited to the tireless work of

USDA, and we applaud them for this effort. There were some delays in getting the program paperwork out, which occurred in the early days of the new program, but such glitches are to be expected in making a truly dramatic change in the Peanut Program. Overall, the new program is working well. However, even with our strong support of the program, we do want to take advantage of this hearing to discuss a few concerns that will improve the operation of the program.

The primary issue that we would like the committee to address is USDA's unwillingness to collect National Peanut Board and State Association assessments. USDA had a decades-old policy and practice of collecting State and national assessments that, for some unknown reason, it ended after enactment of the new Peanut Program.

I have served as chairman for both the National Peanut Board and the Texas Peanut Producers Board. By holding these past positions, I understand the hardships that are placed on organizations due to the lack of interest to help collect these Federal and State mandated assessments.

We are concerned the USDA has refused to assist grower associations in taking out these assessments that are critical to funding promotion programs developed by the National Peanut Board, and also for operating State associations and commissions. There is no justification for USDA's denial of this vital service. This has become more important under the new Peanut Program when vast majority of peanuts go through the loan.

Both the House and Senate Appropriation Committees have expressed their concern about the need for USDA to collect the assessments by urging the Department to provide this service. This language is provided to you in my written statements. We encourage this committee to also take an active role in requiring USDA to again carry out its historical function of collecting these assessments.

The other issue that I would like to mention is a problem that I raised in testimony presented to the Subcommittee on General Farm Commodities and Risk Management on December 1, 2003. The Crop Insurance Program for peanuts has not been changed to reflect the changes in the Peanut Program. Producers of other program crops have the ability to insure actual production history on acreage by unit. Peanuts are still operating under the program that was designed for the old quota system. Peanut farmers can only have a separate unit if the acreage is given a separate FSA serial number.

This was brought to the Risk Management Agency's attention in March 2003 during a meeting with RMA Administrator Ross Davidson. During this meeting, the RMA promised the optional unit standard would be changed for the 2004 crop year. However, the contract change date for peanuts was November 30, 2003, and RMA failed to release a new policy for the 2004 crop year. Thus, we ask the committee to join us in pressing for this change in time for the 2005 crop year.

Also, I would like to go on record as supporting my friend Mr. Cheney's testimony on the seg II and III peanuts. We believe the new Peanut Program has a few issues that need to be addressed,

but with the committee's help, we can sort through these concerns. Thank you again for allowing us the opportunity to comment on the new Peanut Program, and I look forward to answering any of your questions.

[The prepared statement of Mr. Higginbottom appears at the conclusion of the hearing.]

Mr. JENKINS. Thank you, sir. Mr. Sutter.

**STATEMENT OF ROBERT R. SUTTER, CEO, NORTH CAROLINA
GROWERS ASSOCIATION, NASHVILLE, NC**

Mr. SUTTER. Mr. Chairman and distinguished members of the committee, it is an honor to appear before you this morning. On behalf of the peanut farmers of North Carolina, I want to thank the committee for all the hard work done during the last farm bill, and for its continued efforts to ensure a smooth implementation of the bill's provisions.

In the last year of the prior farm bill, there were 125,000 acres of peanuts planted in North Carolina. In 2003, there were 100,000 acres planted, but these figures don't tell the whole story. Prior to this farm bill, Northampton County, NC, was the No. 1 peanut producing county in the State, with 20,247 acres. It is projected that there will be less than 2,500 acres of peanuts planted in the county in 2004. The southern part of the State, which includes Mr. McIntyre's district, planted 4,300 acres of peanuts in 2001 and 8,843 in 2003. Projections are that there will continue to be shifts again in 2004.

What is the reason for this shift in acreage? The peanut section of the 2002 farm bill has allowed this to happen. With the elimination of the quota system, along with decoupling and counter cyclical payments, farmers were free to make planning decisions based on the market, yield capabilities of their land, rotation considerations, and price of other commodities.

In North Carolina, where peanuts are planted is dependent on yield potential of the land. Areas that have had intensive peanut production in the past suffer yield reductions due to disease pressure and short rotations because of a shortage of available peanut land. The loss of peanut acres in these counties is causing economic hardship, however that distress is being buffered with direct and counter cyclical payments.

One of the most important provisions of the new Peanut Program was the assignment of base to the producer based on his production history. During this time of transition, acreage shifts and adjustments, the direct and counter cyclical payments are critical to the economic survival of many peanut farmers along with their local economies.

Farmers who produce program crops have been freed to make planting decisions without regard to crop acreage bases and respond to market prices. Peanuts were included in this process by the current farm bill. During the writing of the farm bill, those representing the peanut farmers interests were asked to make peanuts look like other program crops. That is what happened, and it seems to be working. One posted price, one loan rate, one target price for each commodity works for cotton, corn, wheat, and it works for peanuts.

One area that the North Carolina Peanut Growers Association is working hard on since the farm bill was passed is Federal crop. Prior to the current farm bill, producers could insure their peanuts with a price guarantee that would come close to covering variable cost. The insurance price for peanuts in effect now was specified in the farm bill, 17.75 cents per pound versus 30.5 cents per pound under the old program. For the 2004 crop, the rate was increased to 17.85 cents per pound.

To illustrate my point, consider a producer in North Carolina who has a crop insurance yield of 2,850 pounds per acre. If he elects the 60 percent coverage, his guarantee would be \$305 per acre. The average variable cost of production in North Carolina in 2003 was \$517 per acre. If the producer spends \$517 in production costs and produces 1,000 pounds, he would collect \$119.74 per acre in insurance. He could sell his peanuts for \$250, which would result in a loss of \$147.27 per acre under the current program. If he was allowed to purchase insurance up to the contract price, the picture would be different. With a higher insurance yield of 3,500, the higher payment rate would allow the producer to come close to his variable cost.

We have been working with an insurance company to develop an option that producers could purchase and bring the coverage up to a contract price level. Mr. Etheridge has been informed by Risk Management they are working on a complete overhaul. The bottom line is that we need help now, and any help the committee can give us to rush this process along will be greatly appreciated.

Because the old Peanut Program was eliminated, there is a tendency to eliminate everything about the old program. However, there are some items of the old program that should be retained. The Farm Operator ID Card was extremely useful. The loan program, insurance contracts, and warehouse requirements all use farm numbers and producer shares, which were on the ID card. The producers buying point operators like the card, but in 2003, they were eliminated.

The FSA 1007 is the producers' record of sale. It contains all grading information and explains exactly how sale proceeds were computed. It is useful to the producer and the sheller. This form should not be eliminated. Every effort should be made to facilitate wider use of electronic warehouse receipts. FSA is stretched to the limit and there should be a better way to transfer loan data from the sheller to the FSA office. The loan program is an integral part of the Peanut Program. It provides for the payment of storage and handling, which allows the program to function as designed.

Thank you for allowing me to speak today. As the peanut producers of North Carolina and the Nation adjust to the peanut program, this type of exchange will greatly enhance our chance for success.

[The prepared statement of Mr. Sutter appears at the conclusion of the hearing.]

Mr. JENKINS. Thank you, Mr. Sutter. The Chair would like to ask a question of Mr. Bain.

Mr. Bain, most of the testimony that we have heard from the folks on this panel has been favorable, most have been pleased. There are some requests that they have to improve the program in

the future, and I have read the testimony of other witnesses who will testify here later today, and their testimony is very positive about the program. I personally would like to see you and the State of Virginia peanut producers much happier than you are. I am sure every member of the committee and every Member of Congress would like for that to be the case.

You assessed and you pointed out that you went from 75,000 acres to 56,000 acres to 33,000 acres.

Mr. BAIN. Correct.

Mr. JENKINS. And you assigned higher production costs as the major reason for that being the case. Now in trying to decide how this committee can be helpful to you, be supportive, I guess you did not detail those production costs, and if you could, sir, I wish you would give me so that I can form some sort of opinion in my mind about what could be done. Could you detail those costs and tell us why? I know that you say you grow a different type of peanut in Virginia, but can you kind of itemize those costs and tell us what makes those cost so much greater that it puts you in this position that you find yourself in.

Mr. BAIN. Well, there are many costs, and I would be glad to furnish the committee with an itemized statement that we do have. Unfortunately, I don't have it with me today.

Mr. JENKINS. All right.

Mr. BAIN. But if there is a disease known, we have it in Virginia, and we have a lot of—that cause, whether it is white molds, square templete, and that tomato spotty wilt that Georgia gave us. Everything that comes along, we are exposed to it, and that is basically the main thing I can tell you right now. In Virginia, we don't have the large fields that some of our growing areas do. That definitely increases costs to us by farming smaller fields.

But the main thing is the variable costs that eat us every year. I mean, we have tried cutting corners, eliminating certain items. They seem to haunt us in our production and our yields. Maybe in some cases we don't have the land for a 4-year rotation like some areas have to keep those yields high, and that is the only way that we can succeed under this program in Virginia is to have those high-yield—something 3,500 pounds or above, and our State average is under 3,000 pounds right now.

Like I said, we had two bad years. In 2002, we had the severe drought. In 2003, we had too much rain that hindered our yields. And according to most of our fellow producers there, most of them lost money trying to produce peanuts in 2003. Not necessarily a blame of this program, but the fact that we are all looking at lower prices, weak crop insurance, and lower yields, the combination. But, I will furnish the committee on the information on what it costs to produce peanuts in Virginia.

Mr. JENKINS. Thank you, sir. We would appreciate that. And if you have information about the diseases that you mentioned that help to drive that production cost up, we would appreciate information about that.

Mr. BAIN. Thank you.

Mr. JENKINS. The gentleman from North Carolina, Mr. McIntyre.

Mr. MCINTYRE. Thank you, Mr. Chairman. Mr. Sutter, I wanted to ask you if you could share with us—we know that NAFTA and

GATT effectively ended the peanut quota system. Can you tell us how CAFTA is affecting United States peanut farmers?

Mr. SUTTER. Mr. McIntyre, I am very concerned that our trade negotiators—every time they talk to a Central American country under CAFTA, or whether it is Australia or any other country they are dealing with, they continue to give more access to the U.S. market. Australia, in their agreement, got 500 metric tons. El Salvador got 500 metric tons. Nicaragua got 10,000 metric tons. They are dealing with Chile now, and Singapore and Jordan, and every time they meet with a country, it seems to be that peanuts are another piece of candy that they give, and we would just like the committee to stress that we have a program that is put together very well, I think, and this is eroding the amount of market that we have in the United States.

Mr. MCINTYRE. Thank you, sir. Can you also tell us where the peanut growers in North Carolina stand on country of origin labeling?

Mr. SUTTER. Well, we were very much in favor of it. I mean, we felt that if you should know where your underwear is made, you should know where your peanuts are coming from, and so we hope that it will be put into place. And I realize that there are problems with the livestock industry, but we are very much in favor of it.

Mr. MCINTYRE. All right.

Mr. SUTTER. And I testified before Mr. Hawks at a field hearing in Raleigh in supporting the Southeast position that peanut butter should be included, but they assured me that their rules said because it was no longer in the form that it looked like a peanut, that they couldn't cover it. But I certainly strongly suggest that they be encouraged to—peanut butter is an American commodity, and the housewives should know where it is coming from.

Mr. MCINTYRE. Thank you, sir. And I also want to commend you on making some very good suggestions near the end of your testimony about not throwing everything out at once with the idea of the new program. And the chairman and I were chatting a little while ago about some of these suggestions we think are very worthwhile. So thank you, and thanks to all of you for your testimony today, and thank you for your commitment to come and be with us for the interest and good ideas that you have shared. Thank you, Mr. Chairman.

Mr. JENKINS. Thank you. The gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you. First of all, I want to welcome my good friend Ted Higginbottom to DC. I don't know when Ted has time to work his own crops, because he is always testifying and advocating on behalf of the peanut industry, and I thank you for your involvement in that, Ted. One of the things you heard testimony today, they are thinking about shortening the loan repayment period for peanuts. What is your thoughts on that, and what are the pros and cons of those changes?

Mr. HIGGINBOTTOM. I feel like this probably needs to be entered in pretty cautiously to look at and see how this would affect things. Right off the top of my head, I feel like it probably would be good for the farmer because it would clear out the past year's production before a new marketing year starts.

Mr. NEUGEBAUER. We heard the Secretary say that he had been working with the producer groups. Do you feel like there is sufficient amount of dialog going on back and forth with the Secretary on some of these issues? Do you feel like your input is being solicited?

Mr. HIGGINBOTTOM. Yes, I do. I feel like we are on the right track there.

Mr. NEUGEBAUER. One of the things we have been talking about is market transparency on pricing, and you have heard some concerns expressed from the Secretary that there is just not enough information available. And yet, there is some reluctance on some of the producer groups to furnish what might be proprietary pricing information. What are some thoughts or suggestions that you would have as to how we can work from that from both ends?

Mr. HIGGINBOTTOM. I feel like, especially the producer down on the farm, would feel more comfortable with this repayment rate, whatever it is set at, if they knew how the Department was deriving that figure, however that might be. So the transparency, I feel like, is important to the producer so he knows where this figure is coming from. Like it is now, it is a lot of doubt where these figures are coming from.

Mr. NEUGEBAUER. What kind of pricing information is available to the producer just in the marketplace today? In other words, what information does the producer have available to him that the Secretary doesn't have available?

Mr. HIGGINBOTTOM. I feel like they both have the equal amount of opportunity to gain this information.

Mr. NEUGEBAUER. So you don't really feel like that there is anything keeping them from setting some fair prices, or do you think the pricing levels now are—is there confidence in the current pricing levels?

Mr. HIGGINBOTTOM. No, it is not a lot of confidence in it, but I believe the information is there. It just needs to be obtained a little differently.

Mr. NEUGEBAUER. I encourage you to work with the Secretary, and I encourage the Secretary to work with the producer groups that are here at the table, because with the four of you sitting there, pretty much a lot of the domestic production is represented at this table. And surely we can come up with some ways to get a fair pricing structure put in place.

Ted, just a final question. You talked about what—and we shared a little bit about what peanut changes in the farm bill have done for west Texas in giving producers no options and new opportunities and in just the value-added additional opportunities that have come to west Texas. You might just kind of elaborate on what that has meant to you as a west Texas producer.

Mr. HIGGINBOTTOM. It has been a lot to the South Plains of Texas, especially we have new buying points that have sprung up all over west Texas. We have a new shelling plant that will be open this month, a state of the art shelling plant in Brownsville, Texas. We have another manufacturer that is also had a shelling plant for the last several years. They are expanding it. You are seeing new people come in. I think we will see candy manufacturers and a lot

of other industry come in in the near future. So it has been good for the economy, farmers and the shellers and the manufacturers.

Mr. NEUGEBAUER. Mr. Chairman, I want to thank the panel for coming today. It is so important for us to have this kind of dialog, and I know that it takes time out of your businesses, but it is very important that we hear. And I am particularly in agreement with some of the other members that have talked about in collecting these assessments and getting that money into the programs that they are designed to do, and would encourage us to take up whatever actions that we deem appropriate to help facilitate that.

Mr. JENKINS. Thank you, sir. The gentleman from Georgia, Mr. Marshall. And we have been joined by the gentleman from Georgia, Mr. Sanford Bishop, and welcome, sir. And I know that in your part of the country, you have a great interest in this subject and we will get to you for some questions here in a little bit.

Mr. MARSHALL. Mr. Chairman, if I could ask the Chair how much time are we going to have to submit questions. You had asked the Secretary whether the Secretary would respond to follow-up written questions and the Secretary said yes. Do you have a timeline in mind?

Mr. JENKINS. Is 2 weeks long enough?

Mr. MARSHALL. Two weeks would be fine with me.

Mr. JENKINS. All right, sir.

Mr. MARSHALL. Let me just begin by telling my Georgia friends that are here that if you have questions that you would like me to ask the Secretary, just follow-up questions, I am going to be happy to do that. I am going to take your testimony and work some questions out of the testimony. I mean, Mr. Cheney, your written testimony asks us to look into a number of different things, and I will take what you have done already in writing here and I will turn that into questions. We talked a little bit about this price transparency issue, determining the market price, and the process USDA is going through in order to determine that price. And if you have specific questions that I can submit on your behalf, we will get answers and we will get them in the record as part of this hearing.

Mr. Cheney, as I read through your written testimony, it would be helpful to me if you talked a little bit more about this peanut quality segregation issue and the kind of problems that you see with that issue a little bit more than is in your written testimony, if you could, sir.

Mr. CHENEY. Congressman, we had problems 2 years ago with quality issues on seg II and seg III. We were in that first year of a new program that USDA came out and said it was 65 percent of the value of a seg I peanut, with roughly \$125 a ton. There was some isolated cases that that was all the producer got, even though the majority of shellers buying those peanuts factored it out on a cost of what it cost them to clean that peanut up. All seg III peanuts can be cleaned up at some cost. Some of them, it is very minimal, some cost more. But most of the shellers, and I think voluntarily, I think later today in their testimony they are going to address that issue.

All compensated farmers follow the value of that kernel once they get through cleaning it up. This was some isolated problems.

We didn't have it in Georgia. It came from Alabama. I think that hopefully they have addressed that issue over there now, but we thought it needed to be brought before this committee. If it used to be a problem, in the future, that you all understand why we brought it up, and hopefully it can be done within the industry itself.

Mr. MARSHALL. That is the only question I have. Thank you, Mr. Chairman. I will submit some questions.

Mr. JENKINS. Thank you, sir. The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Let me thank each one of the panelists, and I hope the questions I prepared aren't some that you have already been asked, but if it is, just raise your hand and I will move on. I apologize for to you for having to step out. I had a conflict. And let me also give a special welcome to my good friend from my home State, Bob Sutter, for the tremendous job he does, not only locally, but in representing the North Carolina Peanut Growers not only in our State, but at the national level.

Each of you have mentioned items and issues or challenges that, some would say problems, with the Peanut Program that you would like to see addressed, but those don't generally overlap too much from what I saw in the testimony between the four of you, so let me see if I can get you to respond to some issues. There may be some common issues that we need to deal with to get through beyond regional challenges that we face. The first one, Mr. Cheney, you said that the loan repayment rate is set too high, and the method of determining segregations of II and III have remained unchanged. Do the rest of you see these as problems that need to be addressed? Is it something that all of you can agree to that we probably ought to deal with?

Mr. SUTTER. I think we ought to deal with them, yes.

Mr. HIGGINBOTTOM. Yes, sir. I feel like we need to deal with it.

Mr. ETHERIDGE. Mr. Bain?

Mr. BAIN. Yes, sir.

Mr. ETHERIDGE. OK. Thank you, sir. Mr. Higginbottom, you said you want USDA to collect National Peanut Board and State association assessments. I think Mr. Stenholm touched on that a little earlier, to restore the growers' ability, and maybe it is something we have to wind up doing in this committee because of certain deductible productions and et cetera. I assume the rest of you agree on that one as well?

Mr. SUTTER. Yes.

Mr. BAIN. Yes.

Mr. CHENEY. Yes.

Mr. ETHERIDGE. So that would be something easy that we can agree on that. That helps us when we start, Mr. Chairman, taking a look at that. Mr. Bain, you cited problems with the Peanut Standard Board. You may remember I asked that question of the Undersecretary earlier. Do the rest of you agree with that assessment?

Mr. CHENEY. We don't in Georgia. We think the new Board is progressing nicely. We have had one of our advisory board members sitting on the new Board, and if it started up brand new, it

seemed like the end, but it was working good. Having served on a PAC Board in the past, he thought it was an improvement.

Mr. SUTTER. The members from North Carolina feel very similar to what Mr. Bain is saying, and that they feel that there should be more communication and maybe more meetings, but they just don't feel that it is functioning at its fullest level at this time.

Mr. ETHERIDGE. OK. Thank you.

Mr. HIGGINBOTTOM. We have a member from our local organization that it is on this, and he has been keeping us pretty well informed, and I really have no big problem with the way it is being handled.

Mr. ETHERIDGE. Well, if we are 50/50, it seems like we need to do a little improving then. The broadening of communication with everyone rather than just part of them. Finally, Mr. Sutter, you talked about the preserving the Farm Operators ID Cards and the FSA 1007 forms. What are the thoughts of the rest of you on that as it relates to that issue?

Mr. HIGGINBOTTOM. I think it would help the producer. It is a lot of questions from producers on how their peanuts are being handled, and I think anything that you could do, such as returning to using that, would help them very much.

Mr. ETHERIDGE. Good. Thank you, sir.

Mr. CHENEY. Congressman, we couldn't understand for the life of us why they did away with it. It was a system that worked perfectly. If they say the office could run ahead more efficiently and smoothly using these, it needs to be brought back.

Mr. ETHERIDGE. Thank you.

Mr. BAIN. Congressman, as part of my testimony, as with Mr. Sutter's, we need these in place. Growers need to track these peanuts. When you have contracted peanuts, my own peanuts, foreign stored peanuts, it is a way of tracking peanuts and keeping accurate records, because when you have that much going on, you have 25 or 30 forms and you are sending peanuts at several buying locations, the 1007, the Smart Card, the ID card, all of it is very good. I mean, we have even had one case this year where a load of peanuts was stolen from under a farmer's dryer. Well, it is going to be a whole lot easier to track that load of peanuts if we had all this other in place.

Mr. ETHERIDGE. Gentleman, thank you. And I trust we have enough officials of USDA here today that heard that. If not, we will certainly follow that up, but I think that is appropriate. With that, Mr. Chairman, I am about out of time. Let me thank you for holding this hearing and thank each one of you for coming and being here today. Thank you, and I yield back.

Mr. JENKINS. Thank you, sir. The gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Chairman, and I too want to commend our distinguished panel, and, certainly, to you, Mr. Cheney. Let me just recognize the outstanding job that the Georgia Peanut Commission has done for such a long time and continues to do in our State of Georgia. Let me ask you, Mr. Cheney, first of all, the USDA reduced the second installment on the counter cyclical payment for the 2003 crop. Would you mind telling us what

you and the other producers in Georgia sold peanuts for, and give us any thoughts that you might have on this issue?

Mr. CHENEY. Congressman, the producers in Georgia received \$355 for their peanuts. There was some options out there for refusal rights, first rights, for what did some exercise, some were not. I think that the Secretary had the impression this needs to be calculated in with that \$355 figure. That is not the case. We wanted to be locked in with other commodities and Congress agreed, and they made us like every other commodity. I go on the Chicago Board of Trade and buy a pull or an option on any other commodity other than peanuts, it is not figured against the paper that is issued on the counter cyclical payments. It is not added into it. Why should an option call it a peanut when sometimes it is not even, just be taken for granted that that is the total value. We don't agree with that, and don't understand it. Those of us that have dealt with cotton and corn futures and that sort of thing, it doesn't work that way. Why should peanuts?

Mr. SCOTT. I see. Let me also ask you: you mentioned in your testimony that things are improving, increasing in acreage, that things are stabilizing now, but you also said you had some regulatory concerns. Could you tell us about those?

Mr. CHENEY. Yes, sir, I would be glad to. Thank you for asking. We all increased in acres. We are moving peanuts into new areas that have never grown it, parts of the State that are primarily agricultural like we are in south Georgia. It doesn't have a lot of industry and we need the income coming in, but they are doing good jobs on virgin grounds. Yes, we are doing better, but we could do a lot more.

If USDA would set this loan repayment rate back where it should be where we can regain this market that we have lost overseas, we will be able to grow more peanuts than we are growing now and increase bottom line in farmers' pockets, which is the only thing that I worry about on the Commission is what is good for the farmer. But, we have got to get that problem corrected. We have harped and pushed and we ask you all to go do it, and it has been done, and they still are completely ignoring us.

This issue has got to be addressed if we are going to move into the future. We have got to lose it.

Mr. SCOTT. Do you feel that the Agriculture Department is responding adequately to this concern of setting the loan repayment?

Mr. CHENEY. No, sir. Absolutely not. It is going in one ear and going out the other side or something like that.

Mr. SCOTT. OK. It is good for us to know, and maybe we can do something about that to help you.

Mr. CHENEY. We certainly would appreciate all the help that you have done in the past and hope that you will continue pushing to get them to do what you all wrote in the law for them to do.

Mr. SCOTT. We will. Let me ask you one other question, just for the record. About 65 percent of all of the peanuts grown in this country are grown in the southeastern States. Could you give us where Georgia stands? What percentage of the peanuts are grown, in this country, are grown in Georgia?

Mr. CHENEY. Forty-four to 45 percent.

Mr. SCOTT. Thank you very much.

Mr. CHENEY. Thank you, sir.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. JENKINS. Thank you, sir. The gentleman from Texas, Mr. Stenholm, do you have any questions, sir?

Mr. STENHOLM. First, more of a statement than a question.

Mr. Bain, I can certainly appreciate your saying that the 2002 farm bill has not been accepted well in my State. A portion of my district feels exactly as you do. That portion that has not seen the growth, has seen the reduction in the acreage, et cetera, feel exactly as you do. I have the privilege of representing both that portion of the peanut industry as well as, Mr. Higginbottom, does it seem that the growth and the development and the new opportunities have come, and that has been a challenge. But, it is one that we felt like we had to make in order for us to move forward as an industry and meet those challenges, but it has not been without its pain and anguish. There is no question about it, and I certainly sympathize with the statement that you made.

Question for all of you regarding the price discovery. In Mr. Gaibler's testimony, I don't remember if he verbalized it, but it was there suggesting there is an effort now looking at trading the peanuts on the Board. What would be your opinion on that as a price discovery tool?

Mr. SUTTER. Well, the excuse they have given all along as far as the Board trade is there is just not enough activity to provide the required liquidity to have an item listed on the Board.

Mr. STENHOLM. That was before we changed the Peanut Program to a market-oriented program, though.

Mr. SUTTER. Well, I would certainly hope that they would be able to do it, because that would be the best place to do it, as far as open. I mean, if you could get the Board to go along with it, certainly that would be the best way to do it.

Mr. STENHOLM. Mr. Higginbottom?

Mr. HIGGINBOTTOM. Western Peanut Growers could certainly support that. Of course, a lot of our west Texas farmers are also cotton farmers, and so I think they would welcome this.

Mr. CHENEY. I think it would be a good idea. If there was a possibility, I think that would help us on the loan repayment issue. We don't grow but 8 or 9 percent maximum of the peanuts grown in the world in the U.S., so if we do what you all mandated in that farm bill, that is usually figured in average with the other prices in the world, and we all know all the other prices are considerably than ours. I think it would give USDA maybe a better way that they can set these prices instead of pulling them out of thin air.

Mr. BAIN. As far as helping set the repayment rate, I could see the benefit, but generally speaking as a former, as far as the futures trading optional peanuts, I have a lot of reservations about it because nobody is speaking—futures trading in other commodities, there are more losers than there are winners, so I would be reluctant to see how that was put into place as to the feasibility of helping growers in the end.

Mr. STENHOLM. Each of you heard Mr. Gaibler's testimony. As you sat there and listened, were there any questions that popped into your mind that you would like to have seen those of us up here ask that we did not ask him? If you don't have one, you don't have

to make one up. I think that that is all the questions that I would have at this time. We believe the rest of them have been pretty well asked by my colleagues. Thank you, Mr. Chairman.

Mr. JENKINS. Thank you, sir. Does the gentleman from Georgia, Mr. Bishop, have any questions that you would like to ask of this panel?

Mr. BISHOP. Yes, Your Honor. I mean, Your Honor.

Mr. JENKINS. Thank you. I have been there, too.

Mr. BISHOP. Mr. Chairman. It has been a little while since I have been in this committee. I have had an opportunity to serve on this committee for 10 years before leaving to go to the Appropriations Committee, but I am very interested in some of the regulatory problems that have been raised by this panel. I think Mr. Scott had the witnesses point out that 65 percent of the peanuts grown in this country come from the Southeast, and about 44, 45 percent of them come from Georgia. And, I might add that I think of that, about 38 percent came from my district. So I have a very intimate relationship with peanuts and the peanut industry, and a very intimate relationship with the witnesses that are here and the people who are not at the table but sitting behind the table who have an abiding interest in the peanut industry in America.

I just wanted to come today to support my constituents and the peanut industry. As you grapple with these issues and come before the authorizing committee to talk about the problems with the loan repayment rate, the quality segregation issues, the trade agreements, and, of course, the country of origin labeling, which is of primary interest to growers. I just want you to know that while I have left the Agriculture Committee, I have not left you behind in terms of my commitment and my interest, and that I wanted to come and support you today as you bring these very, very significant concerns before the committee. With that, Mr. Chairman, I don't have any questions, but I do want to welcome all of the friends of the peanut industry to Washington for this committee.

Mr. JENKINS. Thank you, Mr. Bishop. With that, we are ready gentlemen. We appreciate very much your coming. I think your testimony has been very valuable. It has been very direct. It has been very cogent, and it will be, in my opinion, very helpful to this committee and the full Committee on Agriculture. And I certainly appreciate your willingness to come here today and share your thoughts with us.

We are now ready for the third panel. While the third panel is coming to the table, let me introduce them and tell you who they are with. The first is Mr. Evans Plowden, who is general counsel for the American Peanut Shellers Association. And, I learned when I was in Fort Gordon, GA, that they pronounce of his town as "Albany" down in Georgia.

Mr. PLOWDEN. Thank you, Mr. Chairman.

Mr. JENKINS. I called it Albany and was chastised on more than one occasion, so I hope I got the name of your town correct, sir.

Mr. PLOWDEN. You are doing wonderful, Mr. Chairman.

Mr. JENKINS. Mr. Ben Smith, who is the Manager of Peanut candy operations for Tom's Foods in Columbus, GA, and he is here on behalf of the American Peanut Product Manufactures, Inc. And gentlemen, welcome to the both of you, and we appreciate your

coming in here today. And, Mr. Plowden, you are first on the list, so proceed with your testimony when you are ready.

**STATEMENT OF EVANS J. PLOWDEN, JR., GENERAL COUNSEL,
AMERICAN PEANUT SHELLERS ASSOCIATION, INC., ALBANY,
GA**

Mr. PLOWDEN. Thank you, Mr. Chairman. Thank you, members of the committee for this opportunity for me to express the views of the American Peanut Shellers Association on the Peanut Title of the 2002 farm bill.

Mr. Chairman, I have had the privilege of testifying for this committee on numerous occasions, and I can say without fear of being wrong at all that this is the first time I have been here with so few complaints.

The 2002 farm bill has been a tremendous success for the peanut industry. I would have to say that most people, including myself, thought that the ambitious schedule proposed by Chairman Combest and Mr. Stenholm would not be met, but they did meet it, and this Congress did meet it and you passed the 2002 farm bill for the Peanut Title. That has been very good for our industry.

You sought to free the U.S. peanut industry so that it could compete with imports into the United States, which will become a significant issue for our producers and for our industry. I am happy to say that you were successful. With the import year for WTO almost over, it starts April 1. Well, with that year almost over, the TRQ from Argentina is only 36 percent filled. Under the old program, it filled the opening day, April 1. There were more peanuts either or here or in the port than the TRQ, so it filled immediately. Now, it looks like it will be only in the 30 percent filled.

Similarly, the Mexican quota under NAFTA was only 25 percent filled for the entire calendar year of 2003. The NAFTA is a different year than the WTO. So, the U.S. industry, freed from the strictures of the old quota system, has proven that it can compete.

You also sought to free us to grow this domestic market, and I am happy to say that you succeeded. Domestic demand is growing. In fact, there are some people in the peanut industry that believe that if demand continues to grow at its current rate, and production remains stable, that by the year 2009, we will use the entire crop for domestic demand.

You also sought to eliminate outdated regulations that restricted the peanuts that buyers could buy and sell, and I am happy to say that your efforts there were successful as well. I want to commend Under Secretary Bill Hawks and the Agricultural Marketing Service for following the suggestions of the new Peanuts Standards Board and freeing this industry, and that by this industry, I mean, of course, including growers, shellers, and manufacturers to compete on a level playing field in this country, and especially abroad.

The old Peanut Administrative Committee, which you eliminated, had created restrictions that seemingly could not be changed that put the U.S. industry at a competitive disadvantage with respect to our foreign competitors, and prevented numerous efficiencies. We have to be efficient to compete. Under Secretary Hawks and AMS have followed your guidelines. They leveled that playing field and allowed us to be more competitive.

There are a number of examples of these changes, but one that has gotten some attention today, and I want to just highlight, is the change that the Standards Board suggested and the Secretary made was the ability to allow buyers to buy segregation III peanuts for edible use. Technology allows us to sort out those bad kernels and use the good kernels. Many of these tons of peanuts are good peanuts and should not be relegated to the scrap heap because of outdated regulations. I want to emphasize that we retain the outgoing regulations, so it is not a question of food safety. We have stringent outgoing regulations, more stringent than the FDA would require, so I want to emphasize that buying segregation III peanuts and cleaning them up with technology does have no effect on food safety. There are more changes and more efficiencies that we can obtain, and I think everyone is working to get there.

One of the problems that we all faced is that the bill did not pass and signed by the President until May 2002. That was after planting decisions, and in many cases plantings, had been made. So there was precious little time for the USDA, and others, to adjust to this new bill. I don't want to be Pollyanna and tell you that everything went well in 2002, but I will say with you with absolute sincerity that everybody, USDA Under Secretary Penn, all of his people, the Federal Safety Inspection Service and local FSA offices, particularly, worked hard, and I want to say reasonably. Everybody worked reasonably to find solutions on the fly, and they are to be commended.

I see, Mr. Chairman, that my time has run out. I want to touch quickly on one other thing that is in my testimony. We think that the efficiencies and the whole loan program could move quicker if loan service agents were allowed for the peanut industry. The House and the Senate eliminated loan service agents for the peanut industry. We all understand that. It was given to allow area associations a chance to adjust to the new program, and we know that. We do think that at some time, though, the peanut industry needs to move like other commodities to loan service agents that can allow some of this paperwork, and these loans and repayments to happen quicker and more efficiently.

In summary, Mr. Chairman, we think Congress passed a good bill. It has been good for our industry. We have seen new growers enter the market, new areas, people having a chance to make a profit on peanuts in new areas, new growers, and we think it has given the industry an opportunity to grow the market, and the record shows that, and we trust the record will continue to show it. Thank you, Mr. Chairman.

[The prepared statement of Mr. Plowden appears at the conclusion of the hearing.]

Mr. JENKINS. Thank you, Mr. Plowden. Mr. Smith.

STATEMENT OF BEN SMITH, MANAGER OF PEANUT/CANDY OPERATIONS, TOM'S FOODS, COLUMBUS, GA, ON BEHALF OF THE AMERICAN PEANUT PRODUCT MANUFACTURERS, INC.

Mr. SMITH. Mr. Chairman and members of the committee, I am Ben Smith and I serve as board member of the American Peanut Product Manufacturers, or APPMI. APPMI is a national trade association whose members' companies manufacture the majority of the

peanut candies, peanut butter, and snack peanuts consumed in the United States. We have always preferred to buy U.S.-grown peanuts, and now we have the opportunity, without limitation, since Congress approved the new Peanut Program contained in the 2002 farm bill.

We strongly support the new marketing loan program for peanuts which is designed to make the U.S. peanut industry more competitive. We believe that this new program has served the entire peanut industry by making each segment of the peanut industry more efficient. The program has allowed the peanut product manufacturers to expand advertising and promotion of peanut products, as well as creating an incentive to develop new peanut products. In some cases, there has been some price reductions in products that contain peanuts.

The new program has also led to an increased consumption of peanuts in the United States. According to the USDA's Stocks and Processing Report, total peanut usage has increased by 7.4 percent in the first 6 months of the marketing year. We believe that peanut usage is up, at least in part, due to additional advertising of peanut products, the introduction of a number of new products using peanuts, and a more favorable impression of peanuts among consumers.

If you look at some of the innovative ideas that manufacturers have for peanut products, and with the new Federal program, it will help make peanut producers competitive with any other peanut producers in the world. This is an exciting time to be in the peanut business.

At Tom's, we have a number of new peanuts containing products, including an energy bar along with a number of new low-carb bars in a line that we manufacture for a major resource company that are poised for introduction within the next several months. Other APPMI member companies have also introduced successful new peanut products. For example, the J.M. Smucker Company has had a great response to their Uncrustables. The Hershey Foods has introduced several new peanut candy products, including Mr. Goodbar Bites, their Reese's White Chocolate Peanut Butter Cups. The Masterfoods USA, which is the new name for M&M Mars, has a new energy bar called Snickers Marathon, as well as the Snickers Cruncher, the Kudos Fruit and Nut. Masterfoods USA is also currently running a promotion of its Snickers bar with more peanuts than ever.

Transition to this new program has gone smoother than anyone could have hoped for. However, even without our strong support of the program, we do want to take advantage of this hearing to discuss one concern that will improve the operation of the program.

We believe that the committee should take a look at how USDA determines the weekly national posted price of peanuts. We believe the USDA determination of that national posted price should be a more transparent process so that we have the ability to apply market fundamentals that could be used by the peanut industry to develop better forecasting models. Greater transparency in the method of establishing the national posted price would allow the industry to improve decision-making for planning purposes.

I want to, again, emphasize the appreciation that the peanut product manufacturing industry has to both Congress and to USDA. To Congress for its foresight in seeing the need to bring market fundamentals to the peanut industry, and to the USDA for an efficient and effective implementation on the farm bill on such a very short notice.

Again, thank you for allowing me the opportunity to make these comments to the committee.

[The prepared statement of Mr. Smith appears at the conclusion of the hearing.]

Mr. JENKINS. Thank you, Mr. Smith. The gentleman from Georgia, Mr. Marshall, do you have questions?

Mr. MARSHALL. I do, Mr. Chairman. I guess I would be remiss if I didn't recognize and acknowledge Evans Plowden for all the service he has provided for the State Bar of Georgia over the years. He has been our president. He has been on the Board of Governors for years. I served on the Board of Governors and was the mate of our Association President, but he far eclipses any service that most of us ever provide to the Bar and we appreciate that very much, and I wanted to recognize that.

And I have a question. You listened to testimony earlier, and there seems to be a difference of opinion, maybe, between you, representing the shellers, and the growers, concerning loan reimbursement rates. Could you talk a little bit about that? You heard Jimmy talk earlier about he thinks that maybe there is a problem here that needs to be addressed. Mr. Stenholm and his comments mention that at least it looks like we are headed, from the taxpayers' perspective, at a projected rate that is well above the rate that we were thinking we were going to head at. And part of that is this decision concerning setting loan reimbursement rates. And of course, that does have an effect on our competitiveness where export market is concerned.

Mr. PLOWDEN. Thank you, Mr. Marshall. I am not sure there is that much difference. We may be having some difference in terminology. Transparency, as Mr. Smith said, and I think some of your previous panel, perhaps Mr. Cheney, indicated that there is no transparency in how, in the process, the USDA uses to determine that repayment rate. So the concern is that nobody knows how this thing comes about. It just comes out every week and seems to defy some logic sometimes, and I think everybody would feel more comfortable if they had some idea of the machine that is used to produce the number. It is called a black box, and I suppose that is descriptive. Perhaps it needs to be a clear box.

So, Mr. Marshall, I am not sure there is a difference of opinion in the sense that if we are talking about transparency of how it is developing. If Mr. Stenholm is correct and—oh, I shouldn't say correct. If the idea is that the Board of Trade will produce a peanut contract, and it will be traded, then, of course, that would be the ultimate solution to the problem.

Mr. MARSHALL. In Mr. Cheney's testimony, on behalf of growers, he talks about the repayment rate being set too high right now, and the effect of that has been to kill our export markets. And in your testimony, you think that actually we are doing pretty well

where the export competition, or where competition with other countries is concerned.

Mr. PLOWDEN. No, my testimony, Mr. Marshall, was the competition within this country. Our competition with other origins vis-à-vis imports into this country, not so much exports into Europe. One of the difficulties that everybody faces with respect to termination of the prices is we—in the United States, we still have only about 15 percent of our market available for imports. Please do not construe that statement as meaning I want it to go up. That is not my point. My point is, though, that the peanuts that are produced in this country must supply 85 percent-plus of the market, and we are competitive there with the imports from Argentina and Mexico. However, imports from other origins are significantly limited.

Mr. MARSHALL. I am about to run out of time.

Mr. PLOWDEN. I am sorry.

Mr. MARSHALL. No. I apologize for interrupting. What is your opinion about the loan repayment rate? Has it been set too high?

Mr. PLOWDEN. Well, the loan repayment rate would be beneficial to everybody with respect to export production for growing the market if it were lower. It is difficult for me to say that the mechanics have set it too high because I don't know what the mechanics are.

Mr. MARSHALL. I see.

Mr. PLOWDEN. Clearly, we would all benefit if it were lower.

Mr. MARSHALL. Thank you. Thank you, Mr. Chairman. I appreciate it.

Mr. JENKINS. Thank you, sir. The gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Yes. I would just be interested to know, from the perspective of the American Peanut Product Manufacturers Group that you represent, Mr. Smith, what is your general overview of the new program from their perspective? The shifting in price, I think, has been laid more on to the Federal Government than it was on the manufacturers beforehand. I suspect that is a good thing, but could you give me your basic overall view of how this perspective from the folks that you represent, who make the products from the peanuts?

Mr. SMITH. As I stated in my written testimony, we see this as a very favorable move. It has released some of the encumbrances that we had in the old program where large percents of the production was not available to us. We obviously have received some pricing advantages that has enabled us to increase the consumption of domestic peanuts through various channels of additional advertising, some instances of reduced pricing, or in many cases as I indicated, many of the new products, we are actually increasing the percentage of peanuts in the products. More specifically, the confectionery-type products. Obviously, snack nuts or 100 percent peanuts, but the confectionery products are a function of how those peanuts are positioned in a product with respect to the other commodities that go into that product, and that peanut component has been significantly improved. And subsequently, that is drawing more peanuts into those products, and you see that happening very clearly in the low-carb approach that is coming out now. That has had a real big effect on the confectionery industry.

Mr. SCOTT. Thank you. Thank you, Mr. Chairman.

Mr. JENKINS. Thank you, sir. The gentleman from Texas, Mr. Stenholm, do you have questions, sir?

Mr. STENHOLM. Earlier, you made mention of the fact that the cost savings of this bill, in regard to the base line, I think, for the record, it needs to be made very clear. This program shifted the cost of peanuts from the consumer to the taxpayer, for the purposes of which we have outlined. And don't hold me to the total accuracy of these comparisons, but I believe we will find when we look at this cost and compare it to our WTO obligations, that it also has helped us in regard to our WTO obligations even though we spend where we were spending zero. We are now spending in 2005, \$531 million. But these are some of the intricacies that go in to philosophy and the reason why we made the change in the Peanut Program, and it is gratifying to me to see that we are seeing increased consumption of peanuts in the United States.

It is also all of the testimony today has pointed out the conditional problems we have with transparency of pricing and the importance of that, both in setting the loan repayment rate, but also in determining, from the standpoint of domestic consumption, but also from the standpoint of maintaining our market share in the international marketplace. And that is something that we do have to continue to look at, analyze, and particularly with regard to trade measures.

The Chinese question is still very troubling. It is not just with peanuts. That is the subject of today, but the question is how are they maintaining, or actually growing, their market in Europe. That suggests that our pricing is still too high. Well, that gets into the currency question, though. The Chinese today, I believe, have a 40 percent advantage over our peanuts. So when we are talking \$355 a ton loan repayment, you take 40 percent off of that and you see what the Chinese are able to do and maintain the same benefit to their producers that we are trying to do in this country. And that is why a new trade agreement is so critical, and it is so critical for the Chinese to continue to listen to the concerns that many of us have.

Question, Mr. Plowden for in your written testimony, you noted that modern technology allows shellers to sort out bad peanuts from those classed as seg III's, and then utilize the good peanuts that will meet the quality requirements of the edible trade. What is the recover rate of sorting out good peanuts from seg III classification? What is the cost of such sorting, what is the margin of return on the sales of sorted peanuts over purchase seg III peanuts?

Mr. PLOWDEN. Mr. Stenholm, I can't give you exact figures, but I can respond to that question. But the success rate, so to speak, is excellent. It is very, very high. That depends on a number of factors, how sensitive you want to set the technology, but the bad peanuts can be sorted. The more bad peanuts there are, the more sensitive the equipment has to be set, and therefore the higher the cost. And when I say cost, Mr. Stenholm, I don't mean just the mechanics of taking it out. I mean the kernels that are lost from the ton.

If you had a zero PPB, then you obviously could use 100 percent of the kernels. Well, you couldn't use 100, but a high percentage of the kernels, whereas if you had 100 PPB, obviously you would

lose more kernels that would have to be crushed for oil. But the success ratio is excellent. The cost varies with the contamination or toxicity, I guess is a better word, of the ton. If it is low, then the cost is also low. Insofar as the margins of selling those peanuts versus the seg I, I would say they were very similar, Mr. Stenholm, because the market forces that together, so to speak.

Under the old program, we could not buy those peanuts. Under the new program, we can buy the peanuts and the calculations are made if the discount, if any, and frankly, Mr. Stenholm, there are times when there is no discount. But the discount is calculated based on the size of the toxicity, the level of the toxicity, and our experience in how many kernels we will lose in removing the bad kernels.

Mr. STENHOLM. You also mentioned in your testimony that seg III peanuts have, in some cases, been purchased at prices equaling those for seg I peanuts.

Mr. PLOWDEN. That is correct.

Mr. STENHOLM. What were the circumstances?

Mr. PLOWDEN. I can't give you the exact circumstance, but I can tell you it would be seg III peanuts whose toxicity was quite low. As you know, I know Mr. Stenholm, from your experience, the visual test means that if 1 kernel is determined to have a-flavours mold, then it is a seg III peanut. However, it may be just as good as that seg I peanut over here that might have very well have had that 1 kernel in there that the inspector just did not find it. They may be identical. You can even have cases where that seg I, no kernel was found, and so it was a seg I, but in reality, with a chemical test, it may turn out to be a worse ton of peanuts and a higher level of toxicity than a seg III. So the determination is based on the level of toxicity, which converts fairly directly into the cost of cleaning it up.

Mr. STENHOLM. I thank you for that answer, and I think this is another positive note of use of technology in overcoming some of the problems we have had in the past in regards to pricing of peanuts, market value, transparency to the producer, by utilizing this technology and continuing to utilize it will be in the benefit of all concerned. Thank you for the answer.

Mr. PLOWDEN. Thank you, Mr. Stenholm.

Mr. JENKINS. Thank you, sir. Mr. Bishop?

Mr. BISHOP. Thank you very much, Mr. Chairman. Again, let me welcome my constituents to the committee. Having served on this committee for 10 years prior to this session of Congress, I can't tell you how happy I am to have been able to have come to this hearing today and to hear your comments about the 2002 farm bill and how it is working. But most importantly, and most gratifying to me, is to hear my friends from the growing community, from the shelling community, and from the manufacturing community all speaking from the same page. And to hear the cooperation and to hear the same news, essentially, coming from all 3 segments of the peanut industry makes me proud, and it is something that I have prayed for, worked for, talked for for the last 10 years as I sat on this committee and speaking with the various segments of this industry.

I just can't tell you how gratified I am today to hear you come and talk about the product that came out of that 2002 farm bill,

which was very agonizing, but which, it appears, was a good product. And I thank you for that, and I thank the chairman for allowing me to come in to share in this hearing just to hear that and to know that the peanut industry in America is on the right track. Thank you.

Mr. JENKINS. Thank you, Mr. Bishop. And, again, I thank all of you for coming.

Mr. STENHOLM. Mr. Chairman, might I have a couple of minutes? I wanted to ask Mr. Smith, you kind of answered it a moment ago. I believe Mr. Marshall asked you, but you stated that the new Peanut Program has led to an increased consumption of peanuts in general, and also several peanut products. And I believe if I understood you correct, that there really hasn't been a reduction in retail prices, per se, to increase this consumption, but there were some other reasons for it. Would you amplify just a little bit further on what is causing the increased consumption?

Mr. SMITH. There has been announced price reductions. The maker of Jiff peanut butter, which is one of the largest, announced a price decrease as a function of the farm bill. Those have gone on. Additional advertising, additional product introduction, and included in that was my point that most of these products that are being introduced, some of them are on the same format. The low-carb concept, for instance, is essentially the same candy bars, except it is without the sugar base. But, when you look at the price of peanuts today with respect to the way it was under the old program, and in relationship to those other commodities as sugar and corn syrup and those kinds of base commodities, peanuts were a very expensive component of that. 2 things have happened.

One is the price of peanuts has come down, so the relationship to peanuts as it related to those other components has come down, and that has enabled the costing of those products to be increasing the peanut as a component to those confectionery products. So that has been one major impact on the consumption.

Mr. STENHOLM. I am curious about the reasoning, but obviously, the proof of the pudding is in the eating. Consumption is going up for whatever reasons, and I think the program deservedly has some credit for that, and that is very obvious, and from a peanut grower's standpoint, that should be a positive indication. It is sometimes read more negative. Out of curiosity, what is the status of talks between peanut producers in your area and peanut shellers over contract prices for the 2004 crop peanuts soon to be planted? Is more of the peanut crop now contracted compared to what occurred under the quota program? Any rough idea, Mr. Plowden, you might?

Mr. PLOWDEN. Mr. Stenholm, with respect to the 2004 crop at today in March, I don't know that I can give you an estimate. I would say that the 2003 crop had a very, very high percentage of contracting. My guess would be probably higher than the 2000 program, but I am not sure it would be that much higher. Under the old program, as you will recall, shellers mandatorily had to contract additional peanuts, so the law forced a contract with respect to additional peanuts. The motivation for a peanut grower to contract quota peanuts was very little because they generally traded at the quota price, so the motivation to contract a grower's quota

peanuts generally came through the need of that grower to contract the additional peanuts.

So, if you contracted the additional peanuts, you probably contracted the quota peanuts. However, if you had a grower that had very little interest in the additional peanut, not much motivation to contract under the old program. I am sure we could come up with a better statistic for you, but I would be surprised if there is a great deal of difference. I think there was a great portion of the peanuts were contracted under the old program, and I think a great portion are contracted under this new program.

Mr. STENHOLM. Thank you. And, Mr. Chairman, it doesn't seem possible, but I think at the beginning, very early next year, the process of what are we going to do when this farm bill, the 2002 farm bill expires and the question is what do we replace it with. And in the context of a lot of the discussions we have heard today, it just seems like it was yesterday that we were going through the 2002, but next year is the year that we when we start—if the 2002 farm bill was an indication, it took us two years from the beginning talking about the new ideas until we finally got it to the floor of the House and got it into legislation. That means next year is the year.

Mr. JENKINS. Thank you, sir.

Mr. PLOWDEN. Mr. Chairman?

Mr. JENKINS. Mr. Bishop, did you have another comment?

Mr. PLOWDEN. Mr. Chairman?

Mr. JENKINS. Let us hear from the gentleman. Mr. Plowden?

Mr. PLOWDEN. I just want to make sure that I didn't mislead either Mr. Marshall or the committee. I don't think there is any difference of opinion in the shellers viewpoint of the repayment price vis-a-vis export markets and Mr. Cheney's testimony. My comments are with respect to dealing with imports in this country. I want to make clear that we think a lower price will clearly make us more competitive in the export markets, which I believe was Mr. Cheney's position. I don't want to leave this room with people thinking there is any distance between us and Mr. Cheney on that point. Thank you for the opportunity.

Mr. MARSHALL. Mr. Chairman, I picked up on that from the tail end of your comments, and I appreciate that. I am not sure where we go from here with regard to that particular issue, since it does involve a problem, in some respects, a problem with China illegally supplementing its farmers, but I do understand that you all are together on that issue, and I thank you for your testimony. And I have got to tell you, and I think that you will probably agree with this, that Mr. Stenholm has really exercised an awful lot of leadership here in trying to pull all of us together to do right by our farm inspector, and I hope we have that leadership in the future.

Mr. JENKINS. Thank you. Mr. Bishop?

Mr. BISHOP. I just wanted to ask the panel 1 question regarding increased consumption and whether or not, in your opinion, the increased consumption had anything to do with the joint efforts of the shellers, the manufacturers, and the growers in your promotion programs? The research of the health of the marketing that you worked on jointly. I believe that I understand that there was a joint effort or there is a joint effort where you are working together

to try to develop better promotion, better research, better marketing skills so that we can promote peanuts. Did that have anything to do, do you think, with the increased consumption, particularly the health research that has come out with regard to peanuts?

Mr. PLOWDEN. Mr. Bishop, I think you are correct. You may recall that probably 8 or 10 years ago, the peanut industry established something called the Peanut Institute, which was devoted to peanut research, among other things, and while its budget was somewhat limited, it was supported by all sectors of the industry and did sponsor numerous studies at academic institutions throughout the country, all of which had results that were favorable to the peanut as a nutritious product and, oddly enough, as a satisfying product.

There was a book published about the peanut butter diet. Peanut butter actually satisfied you and peanuts satisfy you more than some other products, so there was a foundation of nutrition research that was in place to be used, and is continuing when the Peanut Promotion Board was established. And so, yes, that promotion by the Board and the research by the institute and others, I think has laid the foundation for a lot of this favorable news. Even before the Atkin's diet and the low-carb issue came along, the research from these institutions indicates that peanuts were a very, very nutritious and very, very satisfying crop.

We all have known for a long time that it tasted good, but we have distinguished between good fat and bad fat. The consumer for many years thought that all fat was bad. Well, we have learned that is not the case, and peanuts, fortunately, have abundant good fat. So I hope that is responsive to your question.

Mr. BISHOP. Yes, it is.

Mr. JENKINS. Thank you very much. And let me say thanks to all of you again for being here today, and it is personally pleasing to me to hear the level of positive testimony that I have heard here today. I hope that somewhere in the overall scheme of things there is in the future some thing that will bring some relief to the State of Virginia, Mr. Bain. But overall, what I have heard here today is a level of satisfaction that I have not often seen with enactments of the Congress of the United States in the 7 years that I have been here. So maybe there is hope that we sometimes get some things right, and I hope that is the case, and I hope that there will be further improvements in the future.

And, now, without objection, the record of today's hearing will remain open for 2 weeks to receive additional material and supplementary written responses from witnesses. And this hearing is now adjourned.

Mr. MARSHALL. Mr. Chairman? I am sorry, sir. If we have got 2 weeks to submit our questions, will the record be open for the responses after we submitted questions?

Mr. JENKINS. Yes.

Mr. MARSHALL. Thank you, sir.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF BEN SMITH

Mr. Chairman and members of the committee:

I am Ben Smith and I serve as a board member of the American Peanut Product Manufacturers, Inc. (APPMI). APPMI is a national trade association whose member companies manufacture a majority of the peanut candy, peanut butter and snack peanuts consumed in the United States. We have always preferred to buy U.S.-grown peanuts and now we have that opportunity without limitation since Congress approved the new peanut program contained in the 2002 farm bill.

NEW PEANUT PROGRAM HAS MADE THE INDUSTRY MORE COMPETITIVE

We strongly support the new marketing loan program for peanuts, which is designed to make the U.S. peanut industry more competitive. We believe that this new program has served the entire peanut industry, by making each segment of the U.S. peanut industry more efficient. The program has allowed peanut product manufacturers to expand advertising and promotion of peanut products, as well as creating an incentive to develop new peanut products. In some cases, there have been price reductions in products containing peanuts.

NEW PEANUT PROGRAM TRANSLATES TO INCREASED CONSUMPTION

The new program has also led to an increased consumption of peanuts in the United States. According to USDA's Peanut Stocks and Processing Report, total peanut usage has increased by 7.4 percent in the first 6 months of this marketing year, which began August 1, 2003. Snack peanut usage is up 14.6 percent, peanut butter usage is up 9 percent and peanut candy usage is up 0.2 percent half way through this marketing year.

As reported in the February 28 issue of Peanut Farm Market News 2004, increased peanut product consumption "is good news for the peanut industry." We believe that peanut usage is up at least in part due to additional advertising of peanut products, the introduction of a number of new products using peanuts, and a more favorable impression of peanuts among consumers.

MANUFACTURERS EYE NEW PEANUT PRODUCTS

If you look at some of the innovative ideas that manufacturers have for new peanut products and with a new Federal peanut program that will help make U.S. peanut producers competitive with any other peanut producers in the world—this is an exciting time to be in the peanut business.

We at Tom's Foods have a number of new peanut containing products, including an energy bar along with a number of new bars in a line that we manufacture for major companies that are poised for introduction within the next several months.

Other APPMI member companies have also introduced successful new peanut products. For example, The J.M. Smucker Company has had a great response to its new Uncrustables, which is a thaw and serve, fresh-frozen peanut butter and jelly sandwich with no crust. Hershey Foods has introduced several new peanut candy products, including Mr. GOODBAR Bites and REESE'S White Chocolate Peanut Butter Cups. Masterfoods USA, which is the new name for M&M Mars, has a new energy bar called Snickers Marathon—as well as its Snickers Cruncher—and Kudos Fruit & Nut. Masterfoods USA is also currently running a promotion of its Snickers bar, with more peanuts than ever.

NEED FOR TRANSPARENT PROCESS IN SETTING THE REPAYMENT RATE

The transition to this new program has gone smoother than anyone could have hoped for. However, even with our strong support of the program, we do want to take advantage of this hearing to discuss one concern that will improve the operation of the program. We believe that the committee should take a look at how USDA administers the repayment rate for peanuts.

We believe that USDA's determination of the weekly national posted price for peanuts should be a more transparent process, so that we have the ability to compute market fundamentals that could be used by the peanut industry to develop better forecasting models. Greater transparency in the method of establishing the national posted price would allow the industry to improve decision-making for planning purposes.

Thank you for allowing us the opportunity to comment on the new peanut program.

STATEMENT OF ROBERT R. SUTTER

Mr. Chairman and distinguished members of the committee, it is an honor to appear before you this morning. On behalf of the peanut farmers of North Carolina I want to thank the committee for all the hard work done during the last farm bill and for its continued efforts to ensure a smooth implementation of the bill's provision.

American Agriculture is undergoing tremendous changes as a result of the past farm bill. North Carolina is going through the same changes. It is probably more visible in our State because of two very important crops; Tobacco and peanuts.

In the last year of the prior farm bill, there were 125,000 acres of peanuts planted in North Carolina. In 2003 there were 100,000 acres planted. But these figures don't tell the whole story. Prior to this farm bill, Northampton County, North Carolina was the No. 1 peanut producing county in the State with 20,247 acres. It is projected that there will be less than 2,500 acres of peanuts planted in the county in 2004. The southern part of North Carolina, which includes Mr. McIntyre's district, planted 4,300 acres of peanuts in 2001 and 8,843 in 2003. Projections are that there will continue to be acreage shifts again in 2004.

What is the reason for this shift in acreage? The peanut section of the 2002 farm bill has allowed this to happen. With the elimination of the quota system, along with decoupling and counter cyclical payments, farmers were free to make planting decisions based on the market, yield capabilities of their land, rotation considerations and prices of other commodities.

Now in North Carolina; where peanuts are planted is dependent on the yield potential of the land. Areas that have had intensive peanut production in the past suffer yield reductions because of disease pressure and short rotations because of a shortage of available peanut land.

The loss of peanut acres in these counties is causing economic hardship, however that distress is being buffered with direct and counter cyclical payments. One of the most important provision of the new peanut program was the assignment of base to the producer based on his production history. During this time of transition, acreage shifts and adjustment, the direct and counter cyclical payments are critical to the economic survival of many peanut farmers along with their local economies.

Farmers who produce program crops have been freed to make planting decision without regard to crop acreage bases and respond to market prices. Peanuts were included in this process by the current farm bill. During the writing of the farm bill, those representing the peanut farmers interests were ask to make peanuts look like the other program crops. That is what happened and it seems to be working. One posted price, one loan rate and one target price for each commodity works for corn, cotton and wheat and it works for peanuts.

One area that NC Peanut Growers Association has been working on since the farm bill was passed is Federal Crop Insurance. Prior to the current farm bill, producers could insure their peanuts with a price guarantee that would come close to covering variable cost. The insurance price for peanuts in effect now was specified in the farm bill; 17.75 cents per pound versus 30.5 cents per pound under the old program. For the 2004 crop, the rate was increased to 17.85 cents per pound.

To illustrate my point, consider a producer in North Carolina who has a crop insurance yield of 2850 pounds per acre. If he elects the 60 percent coverage, his guarantee would be \$305.00 per acre. The average variable cost of production in North Carolina for 2003 was \$517 per acre. If the producer spends \$517 in production costs and produces 1,000 pounds per acre, he would collect \$119.74 per acre in insurance. He could sell his peanuts for \$250.00, which would result in a \$147.27 loss per acre..

If he was able to purchase insurance up to the contract price the picture would be different. 60 percent of \$500 would be \$300 or \$428 per acre. Using the same yield as above would result in a loss of only \$96.50 per acre. With a higher insurance yield of 3,500 pounds per acre, the higher payment rate allows the producer to come close to covering variable costs

We have been working with an insurance company to develop an option that producers could purchase to bring their coverage up to the contract price level. Also, Congressman Etheridge has been informed by Risk Management that they are working on a complete overhaul of the peanut insurance policy, to be effective in 2006. The bottom line is that we need help now, and any help the committee can give us to rush this process along will be greatly appreciated.

Because the old Peanut Program was eliminated, there is a tendency to eliminate everything about the old program. However there are some items of the old program that should be retained. The Farm Operator ID Card was extremely useful. The loan program, insurance contracts and warehouse requirements all use farm num-

bers and producer shares which were on the ID card. The producers and buying point operators liked the cards, but in 2003 they were eliminated.

The FSA 1007 is the producers' record of sale. It contains all grading information and explains exactly how his sale proceeds were computed. It is useful to the producer and the sheller. This form should not be eliminated.

Every effort should be made to facilitate wider use of electronic warehouse receipts. FSA is stretched to the limit and there should be a better way to transfer loan data from the sheller to an FSA office. The loan program is an integral part of the peanut program. It provides for the payment of storage and handling which allows the program to function as designed.

Thank you for allowing me to speak today. As the peanut producers of North Carolina and the Nation adjust to the new Peanut Program, this type of exchange will greatly enhance their chance for success.

STATEMENT OF JIMMY CHENEY

Mr. Chairman, members of the subcommittee, my name is Jimmy Cheney, I am Chairman of the Georgia Peanut Commission's Board of Directors. I am here today representing the Southern Peanut Farmers Federation comprised of the Georgia Peanut Commission, the Alabama Peanut Producers Association and the Florida Peanut Producers Association. Accompanying me are Larry Ford, President of the Florida Peanut Producers Association and Jerry Byrd, Treasurer of the Alabama Peanut Producers Association.

The Southern Peanut Farmers Federation is the largest peanut producer organization in the United States. We produce 65 percent of the peanuts grown in this country.

Thank you for the opportunity to testify today. I produce approximately 600 acres of peanuts on my farm in Calhoun County, Georgia. I am a life long peanut producer. Under the old, pre-2002 farm bill peanut program, I was a quota holder and peanut producer. The Southern Peanut Farmers Federation supported most of the changes this House Agriculture Committee made in the peanut program. These changes have given America's peanut producers hope for a future in Agriculture. I personally think the peanut industry was doomed under the old program.

Mr. Chairman, Members of the Subcommittee, I can report to you that the majority of America's peanut producers are in a better economic position today than prior to the changes in the 2002 farm bill. The Southeast has seen increased acreage and peanut planting in new areas of the peanut belt for the first time. An industry in trouble has begun to stabilize.

Make no mistake about it; Southeastern peanut growers are grateful for our new program. It began in this House Agriculture Committee and IT WORKS FOR PEANUT PRODUCERS! We thank you for your work and efforts.

Although the regulatory process has been quite difficult for producers, this past crop year supported by adequate weather conditions allowed growers to produce a good crop in the Southeast.

Despite the Congress producing legislation that moved the peanut industry into modern, competitive agriculture, we do have regulatory concerns. The U.S. Department of Agriculture was not prepared for the new peanut program as established by the 2002 farm bill. Growers during the 2002 crop year produced peanuts without assurances of how their product would be marketed or what their ultimate financial return would be. This was a challenge for peanut farmers.

The regulations for the 2003 crop year improved in most areas. One prominent issue still of concern for producers is the loan repayment rate for peanuts. The Department's current formula has, over time, caused the demise of the U.S. peanut export market. Customers around the world, developed through years of business relationships, have been lost to other peanut exporting countries because the U.S. loan repayment rate was set too high. Recent low production levels for some major exporting countries has placed the loan repayment more in line with market conditions but it is quite evident that the Department is not considering the prices offered in the marketplace by our competition, other peanut exporting countries. The Congress' message in the 2002 farm bill that prices from other peanut exporting nations are taken into account in setting the loan repayment rate has been largely ignored by USDA. Peanut State representatives have urged the Department to re-evaluate its loan repayment rate processes to no avail. We hope the committee will continue to review the loan repayment rate calculations and encourage the Department to help the industry recapture its export markets through competition and not just based on other exporting nation's weather conditions.

The peanut quality segregation issue continues to trouble the Southeast. The USDA has maintained through regulations the segregation of peanuts as under the old program. The loan rate set by USDA, even though not required by legislation, is 65 percent below (\$124.25) the legislated loan rate. The producer is penalized but there are no restrictions on these peanuts for commercial use. If a lower loan rate is necessary, it should reflect the commercial value of the peanuts, not an arbitrary rate established by USDA. The method of determination of segregations 2 and 3 has remained unchanged since the mid sixties despite tremendous advantages in technology. We are trying to work with USDA and have presented them several options. Movement is slow and we feel that without a message from Congress to USDA, this issue will not be resolved.

The USDA moved quickly to change the structure of administering the peanut program after the 2002 farm bill. This has not eliminated the "Old Program" mentality for some at the Department. Growers asked Congress to eliminate our supply-management structure and Congress agreed yet the Department continues to view the peanut program as one whose production should be highly regulated or controlled. We would hope your committee will encourage USDA to assist U.S. peanut producers to grow in the world marketplace and not to become trapped in a pre-2002 farm bill mentality.

USDA agencies and agency divisions must work together to administer the new program. Without a coordinated effort, U.S. peanut producers will not be competitive in the world marketplace. This coordination is critical to the long-term success of the program!

We hope the committee will also diligently monitor the impact of upcoming trade agreements on U.S. peanut producers. Prior to the 2002 farm bill, U.S. peanut producers opposed every major trade agreement coming before the Congress. We hope future trade agreements can merit our support and that they will promote significant growth for U.S. producers as a result of these agreements.

USDA's Market Assistance Program and other export promotion assistance programs should include domestic processed peanut products that could be exported as finished goods. Currently, branded promotions are not allowed under these programs. They should not only be allowed but encouraged due to the value added nature of the products exported. Branded promotions should also be allowed for foreign manufacturers when U.S. origin peanuts are exclusively used.

Finally, as peanut producers transition to a more market oriented industry, we ask you to encourage USDA to facilitate additional marketing options for producers. Opportunities for growers to market their product are very limited. Our new program should produce additional opportunities. We believe USDA can help educate and encourage our industry in the use of new marketing options.

We appreciate the interest this committee has shown in our industry. With a program that worked for many decades, it became time for a change. The House Agriculture Committee's leadership allowed us to save an industry quickly disappearing in our country. Thank you for your help and cooperation in making changes in order to keep our industry viable.

I thank you again for allowing me to testify.

STATEMENT OF FLOYD D. GAIBLER

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to appear today to discuss the implementation of the peanut program provisions of the Farm Security and Rural Investment Act of 2002 (2002 Act).

Let me begin by complimenting you and members of the full committee for your foresight and leadership in working with the peanut industry to adopt a market-oriented program for peanuts that is similar to other basic commodities. This policy alters the course for the peanut industry, turning away from policies derived from New Deal era legislation and progressing to policies allowing producers to make decisions based on market conditions.

Summing up the initial 2 years of implementation of the new market-oriented peanut program, I believe the Department of Agriculture has been very successful in overall implementation. In 2002, we faced the challenges of implementing the new program after the crop was planted, and we immediately instituted procedures to allow producers to use the non-recourse marketing loan program for 2002-crop peanuts. In 2003, we made great strides in gathering additional data needed to refine the program.

The non-recourse marketing loan programs that have operated for a number of years are quite different from the price support program to which the peanut industry was accustomed. Now, as is the case for other program crops, peanut producers

can place their harvested production as collateral for Commodity Credit Corporation (CCC) marketing loans and repay the loans at the loan rate (plus interest) if prices are above the loan rate, or at less than the original loan rate when the market price is lower. This results in a benefit known as a marketing loan gain. As an alternative to placing peanuts under loan when market prices are below the loan rate, producers may elect to receive loan deficiency payments (LDP's) which are payments equal to the difference between the loan rate and the loan repayment rate. These features decrease the loan program's potential to result in CCC accumulation of stocks through forfeitures. Additionally, a producer's income is protected from the risk of downside market price fluctuations during the loan period.

Despite continuing import restrictions, for the first time in over 60 years, the markets are working and peanut prices are being determined in a more market-oriented environment. Based on current supply and demand market fundamentals we anticipate the industry will experience record food use of peanuts in the current 2003–04 season, exports are being maintained at significant levels, peanut crush is showing strength and peanut imports have declined sharply. As you can see in the accompanying Chart 1, it is projected the 2003–2004 peanut crop stocks will reach relatively low levels this year. This takes into consideration total peanut use for the past several years and assumes similar trends will continue. Thus, today we believe there is cause for optimism in the new peanut market.

In addition to the non-recourse marketing loan, and similar to other program crops, the new peanut program provides for direct payments at a statutory rate and for counter-cyclical payments during periods of decreased market prices. These payments provide an additional safety net to producers with the flexibility to adjust their planting decisions to market conditions.

Under the new program, peanut producers may grow any quantity of peanuts and market them for food, export or crush. Under the prior program, producers had to have a poundage marketing quota in order to sell the peanuts in the more lucrative food market. Price support under the previous program was based upon a two-tiered support level that provided a high level of support for peanuts used in the domestic food market and a much lower level of support for peanuts that were to be exported or crushed for oil and meal.

In transitioning to the new marketing loan program, peanut producers are facing special challenges. Finding price information, not customarily a problem for other commodities with marketing loan provisions, is a unique problem with peanuts. For example, corn producers have a combination of mechanisms that provide price transparency in the marketplace. There are vast numbers of corn producers throughout the U.S. with multiple marketing options, including selling to feed yards, ethanol plants, and local elevators. Corn prices are openly reported on various market exchanges and by many market price reporting services. In stark contrast, there are a comparatively small number of peanut producers in the U.S. with limited sales options, no market exchange, and limited market price information sources. USDA has been working cooperatively with the industry and learning along with them the impacts of the new program. We believe these efforts will lead to solutions to the challenges that remain.

I would now like to provide you an overview of our implementation progress, examine the economic impacts of the program, and discuss the challenges that remain.

PROGRAM IMPLEMENTATION

As prescribed by the 2002 Act, USDA made payments to eligible quota holders under the so-called 'buyout' program. Eligible quota holders could choose between accepting payments in one lump sum or in five equal installments at \$0.11 per pound for 5 years, totaling \$0.55 per pound.

USDA has paid over 95 percent of the peanut quota buyout payments, or nearly \$1.24 billion to eligible quota holders. Of the 69,984 quota holders that enrolled for the buyout program, only 8 percent decided to accept the buyout payment in 5-annual installments. For quota holders that elected the annual installment option, payments will be issued annually during the month of January.

Owners of peanut base acres also have begun receiving payments under the Direct and Counter-cyclical Program (DCP) with respect to about 1.5 million base acres. National payment yields average almost 3,000 pounds per acre. CCC has issued \$268 million in payments under the 2002 DCP and \$128 million for the 2003 crop year. Additional counter-cyclical payments for the 2003 crop have just been announced and 2004 crop direct payments are being issued to eligible recipients.

During the 2002 crop year, the National Agricultural Statistics Service (NASS) estimates 1.66 million tons of peanuts were produced. Producers put virtually all peanuts under loan or received LDP's for the peanuts. Only 2,870 tons of peanuts were

forfeited to CCC. Of those, CCC has sold 2,150 tons, receiving an average price of \$357.62 per ton. As a matter of general policy, CCC does not accumulate stocks of forfeited commodities. Accordingly, commodities acquired by CCC through marketing loan forfeitures are sold into the marketplace as soon as possible.

Section 165 of The Federal Agriculture Improvement and Reform Act of 1996 authorizes the sale of CCC-owned commodities. The Farm Service Agency is responsible for CCC-owned commodity sales. CCC utilizes the following sales methods, to be consistent with other marketing loan commodities:

- make the peanuts available for immediate sale to the storing warehouse operator for a period up to 10 calendar days
- post sales availability to all interested parties on the Internet.

Unlike most other major commodities, CCC, under the provisions of the 2002 Act, is required to pay storage, handling and associated costs for peanuts pledged as loan collateral. Also, unlike other major commodities, peanut producers maintain very little, if any, on-farm storage.

Since the cost of storage is borne by CCC, most peanuts are placed under the marketing loan program where they remain until marketed.

LOAN REPAYMENT RATE

The abolition of the old peanut program included the elimination of the two-tier quota/nonquota price support system that provided a lower level of government support for peanuts produced and marketed above quota levels established for a farm. Price discovery and transparency were of little significance in the previous program. Today, under the new peanut marketing loan program, price discovery and market transparency are vital because they represent the mechanisms by which the market communicates to producers how much their peanuts are worth.

The 2002 Act requires CCC to determine a repayment rate for peanuts under the marketing loan program that satisfies objectives that are identical to those for all other loan eligible commodities. The statutory loan repayment language outlines four objectives: minimize potential loan forfeitures; minimize government stock accumulation; minimize Federal Government storage costs; and allow peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally.

Although the other marketing loan programs have the same objectives, the way USDA derives the repayment rate for grain crops is different from that used for peanuts. For instance, corn loan repayment rates, typically known as posted county prices (or PCP's), are derived from major terminal market prices FSA obtains from major inland terminals and export ports. The terminal market prices are collected daily and reflect actual trades. In turn, the terminal prices are adjusted back to each county using publicly available differentials. The terminal prices, differentials, and resulting PCP's are available daily at USDA Service Centers and on FSA's website for each county and for corn, as well as each of the other feed grain program crops, five classes of wheat, and nine oilseeds.

For peanuts, however, CCC announces a weekly loan repayment rate or national posted price. The loan repayment rate is calculated using available, but limited, domestic and international sales prices for peanuts. An average is computed using the prices collected each week. Because of the limited price discovery mechanism for peanuts, it is difficult for CCC to establish the weekly repayment rate.

In July of last year, at the end of the 2002 crop year, USDA convened an Inter-agency Peanut Task Force to fine-tune our price discovery process, focusing on both domestic and international prices. We assembled staff resources from 9 agencies in USDA.

The Peanut Task Force determined that the most critical component for a successful marketing loan program is accurate and timely price information, and that component remains elusive. Further, it was determined that price discovery in the peanut sector has been complicated by a lack of transparent, consistent, market-oriented data on transactions. Contributing to the lack of transparency is the small and highly competitive structure of peanut buyers. Also, unique marketing patterns include: 1) a lack of on-farm storage capacity; 2) provisions mandating government payment for storage and handling; and 3) a market in which participants were accustomed to numerous years of a quota price support system.

On October 22, 2003, USDA convened a meeting with representatives of all segments of the peanut industry, including growers, shellers, manufacturers and brokers. The purpose was to discuss challenges related to price discovery and transparency and request their cooperation in developing solutions.

In subsequent meetings with the shelling segment, USDA requested more timely price reporting to enhance price discovery. Dating back to at least 1955, U.S. peanut shellers have provided the National Agricultural Statistics Service (NASS) with monthly price data to generate a published “all peanut price.” USDA sought to improve on that price series and receive weekly verifiable price data, as well as prices by type of peanut and on a regional basis. However, the shelling segment indicated that rather than provide input to allow NASS to collect verifiable weekly price data, USDA should rely more heavily on shelled prices and prices from international sources. Currently, USDA has no statutory authority to implement mandatory peanut price reporting to assure we are receiving accurate and timely peanut price information.

IMPACTS OF THE 2002 ACT

Perhaps the most significant impact of the new peanut legislation is that USDA no longer sets the minimum value of peanuts through the price support program. Market conditions now determine the price for peanuts. Despite the inherent problems and rough spots in this transition, the results are clear— the industry is expecting record food use of peanuts this year, exports are being maintained at significant levels, imports have declined sharply, and peanut crush is showing strength.

Recent statistics show changes in planted acres have occurred since the enactment of the 2002 Act. Planted acreage in Virginia declined about 41 percent in 2003 compared to 2002. Conversely, planted acreage in Florida increased 30 percent. In Oklahoma and Texas, planted acres declined 38 percent and 13 percent, respectively, from 2002. During the same period, producers in the States of Alabama, Georgia, North Carolina and South Carolina increased yields to the highest level since 2000. We believe these shifts reflect changes in production practices, such as increased irrigation, impacts of the quota buyout and the exit of producers who shifted from peanuts to other crops (tables 1 and 2).

2003 CROP

During 2003, U.S. peanut farmers produced a high-yielding, high quality crop and, given current conditions in both domestic and international markets, should be in a good position to meet domestic and world market demands. The latest crop production report released by NASS reported just over 2 million tons of peanuts produced in the U.S. in 2003.

Of the total 2003 crop production, 16,809 loans have been disbursed with respect to over 1.66 million tons of peanuts, about four-fifths of total production. To date, about 672,000 tons of loan collateral have been redeemed.

According to the most recent USDA forecast, total U.S. food consumption of peanuts, the largest component of domestic use, is expected to be over 5 percent from last year.

PEANUT EXPORT MARKETS

In the two countries that are leading export competitors, Argentina and China, weather-related challenges have impacted world markets. Argentina experienced the effect of drought in major peanut producing areas. While rainfall alleviated some drought conditions, the crop was planted late and it is estimated at 142,000 hectares, 10 percent below last year’s plantings.

Industry reports indicate China’s 2003 crop experienced a 1.5 million metric ton shortfall in peanut production due to extreme wet weather during harvest in major producing regions. Currently, it remains questionable whether China will resume exporting peanuts into the world market at previous-year’s level.

USDA projects U.S. exports of the 2003 crop will reach 250,000 tons (in-shell). This is up slightly from the 2002 crop year. Given current international market conditions, some in the industry suggest exports could exceed 300,000 tons.

As depicted in Chart 2, U.S. peanut exports have been trending lower, declining from 385,805 tons in 1992 to 248,018 tons in 2003. Spikes in exports generally coincide with larger crops. The exception occurred in 1998 and 1999 where two moderately large crops combined to boost exports in 2000.

Since the decline in peanut exports has been ongoing, it is unlikely the continued decline in exports is due solely to provisions of the 2002 Act. In the years preceding 2002, the decline in peanut exports can be attributed to increased competition in international markets. During this period, both Argentina and China increased their export activities. Improvements in quality coupled with competitive pricing helped erode U.S. exports. Competitive pressures have intensified in recent years, particularly with the emergence of China as a major player in the market. China has dou-

bled its exports since the mid-1990's and improved quality. Total Chinese exports are now at 1.1 million metric tons annually. While a large portion of this increase has been to markets that previously did not import large quantities of peanuts, China has still managed to increase market share in nearly every market, including the European Union and Mexico. In both Europe and Mexico, this increased share of sales by China has come at the expense of peanuts from Argentina and the U.S. Argentina has been particularly hard hit due to their lower quality relative to the U.S. and has been one factor in the decline in Argentine peanut production in recent years. Other factors include poor harvests and export taxes that have reduced Argentina's competitiveness.

It should be noted that under the previous peanut program, producers could not carry over quota undermarketings and may have over-planted to ensure adequate production to meet quota, even if yields were poor. If production above quota resulted, excess peanuts were then exported, inflating prior years' shipments.

REMAINING CHALLENGES

I would like to now raise a few remaining challenges we face. USDA's Interagency Peanut Task Force continues to actively research, deliberate and work with the peanut industry on these and other issues that will enhance program delivery.

PRICE DISCOVERY / TRANSPARENCY

USDA will continue to commit resources to work with the peanut industry to improve price discovery mechanisms and provide more price transparency to both domestic and international markets. Further, USDA is considering a third party examination of the current peanut market price discovery methods, options for improving price discovery for peanuts, and program implementation enhancements.

SHORTEN LOAN PERIOD

Under the new program farmers can have peanuts in storage during months that fall into the next crop year. Due to perishability factors, USDA became concerned about deterioration of CCC loan inventories, ability to re-sell and potential market impacts on peanuts during the current harvest period. Shortening the loan period would encourage producers to clear the market of peanuts before the next crop is harvested. USDA consulted with industry segments including producers, shellers and manufacturers to discuss the possibility of having marketing assistance loan on peanuts maturing no later than June 30 following the date in which the loan was made. To date, no consensus on this issue has been reached, but we will continue to conduct research to determine the feasibility of suggesting a change in the length of the loan period.

LOAN RATES BY TYPE

The 2002 Act provides for an average loan rate for the four types of peanuts grown in the U.S. (i.e. Runners, Spanish, Valencia, and Virginia). Values for each type vary based on end use. Using an average loan rate for the four types of peanuts could, over time, increase plantings of a type or types for which producers receive the greatest amount of program benefits and cause a shift in production by type and geographic region.

For example, county loan rates for the 2002 wheat crop were updated and, more importantly, differentiated by each of five classes of wheat: durum; hard red spring; hard red winter; soft red winter; and soft white wheat. The updates and differentiation by class were done so that the county loan rates would better reflect recent market price relationships among counties and among classes, and to reduce the significant LDP-rate disparities that had existed in prior years when all-wheat loan rates had been used. USDA is evaluating the feasibility and potential benefits of implementing peanut loans by type using the wheat by class model.

Biocompetitive Agent to Minimize Aflatoxin Contamination For the past several years, scientists have been researching and testing the commercial use of biocompetitive controls to minimize aflatoxin contamination. The biocompetitive agent is a different strain of a-flavus mold that competes, more aggressively, against the toxin-producing mold. The agent is applied as a field inoculate.

Recently, an application for full registration of the biocompetitive agent was submitted to the Environmental Protection Agency (EPA). If approved it may be difficult, if not impossible, for traditional visual testing for a-flavous mold in peanuts, as the "good mold" is indistinguishable from the "bad mold." Similar biocompetitive controls have been approved for use on cotton in Arizona.

The 2002 Act established the new Peanut Standards Board to provide consultation to USDA on quality and handling standards for domestically produced and imported peanuts. A working group within the Interagency Peanut Task Force, including representatives from AMS, is researching and reviewing various program implementation and grading options should EPA grant approval for the use of the bio-competitive agent. Upon completion of this review, USDA will ask the Peanut Standards Board to review this issue.

SEGREGATION III DISCOUNTS

AMS inspectors visually test for the presence of *Aspergillus flavus* (a-flavus) mold when peanuts are delivered to buying points. Under certain climatic conditions a-flavus mold can cause aflatoxin contamination. Commodities found to contain aflatoxin lose value in the market because they require additional costs to process for food use or they cannot be used for animal or human consumption and must be crushed for oil and meal, thus reaping a lower return. In turn, such peanuts are designated segregation III (seg III) peanuts. Upon determination that peanuts are seg III peanuts, the Farm Service Agency applies a discount of 65 percent of the loan value, (\$124 per ton) to the peanuts when pledged as collateral for CCC loan, consistent with discounts applied to other commodities. The purpose of the 65 percent loan discount is to protect the value of CCC loan collateral. At the time peanuts are delivered to the buying point producers are given an option to sell seg III peanuts at the discounted value or clean and re-grade them to determine if they will grade a higher value.

A grower group has met with USDA officials to express their concern that under the present system producers are unfairly penalized. According to the grower group, the buyer has been given more flexibility in using peanuts labeled seg III, by allowing them to clean these peanuts and market them for full value in the commercial market. Growers, on the other hand, are penalized through the 65 percent discount in the loan rate. Again, upon completion of this review, USDA will ask the Peanut Standards Board to review this issue.

Interest in Trading Peanuts on Commodity Exchange While there is no transparent price discovery for peanuts, USDA has learned the New York Board of Trade is examining the potential of trading peanuts on the exchange. Additional time will be required to further review the potential size of the market, the impacts of the 2002 Act on U.S. production, risk points encountered in the industry from farmer to manufacturer, and how that risk is managed. If peanuts were traded on this, or another, commodity exchange, there would be better price discovery, much like other basic commodities under a marketing loan program.

ELECTRONIC TRADING (WAREHOUSE RECEIPTS)

Electronic warehouse receipts can lead to efficiencies in marketing and handling of peanuts.

Electronic warehouse receipts for peanuts were made available on a pilot basis in the fall of 2003 through EWR, Inc. To date, one company has used electronic warehouse receipts out of various warehouse locations in Texas, Oklahoma, Virginia, and North Carolina. A total of 793 electronic receipts have been issued, of which most were pledged as collateral for a marketing assistance loan.

There are many benefits to using electronic warehouse receipts. It is expected that more companies will make use of electronic warehouse receipt services beginning with the 2004 crop of peanuts, for the following reasons:

- reduction in legal risk, due to audit trails and increased validations;
- buyers and sellers receive immediate acknowledgement when a bid or offer is submitted, saving them time and money;
- increases competition, resulting in improved price discovery, since buyers and sellers may base bids and offers on up-to-the-minute market price information;
- eliminates inefficiencies and streamlines processes, since there is no need for mailroom handling or keypunching data;
- reduction in errors, because edits and validations are built in to prevent incomplete and incorrect data from being transmitted; and
- added security, because electronic warehouse receipts cannot be lost in the mail, misplaced in-house, or destroyed.

The peanut industry continues the process of moving toward a more market-oriented industry. As pricing data becomes more readily available, more timely and more reliable, USDA will continue our efforts to improve program delivery. As new issues arise we are committed to working with Congress and the peanut industry to work out viable solutions. While change may not come easily or as expeditiously

as one would like, let me assure you that USDA is doing everything possible to assist the industry in transitioning to the peanut marketing loan program to meet Congress' intent of assuring it is as market-oriented as all of our other programs and one that will facilitate exports.

This concludes my testimony. I will now address any questions by the committee members.

Table 1

NASS Peanut Planted Acres by State (1,000 Acres)			
State	2002	2003	% Change 2002-2003
AL	190	190	0
FL	96	125	30.21
GA	510	545	6.86
NM	18	18	0
NC	101	101	0
OK	60	37	(38.33)
SC	10	19	90.00
TX	315	275	(12.70)
VA	58	34	(41.38)
U.S.	1358	1344	(1.03)

Table 2

NASS Yields by State (Pounds per Acre)					
State	2000	2001	2002	2003	% Change 2002-2003
AL	1490	2675	2050	2750	34.15
FL	2485	3050	2300	3000	30.43
GA	2700	3330	2600	3450	32.69
NM	2115	3020	3000	2700	(10.00)
NC	2750	2910	2100	3200	52.38
OK	1800	2570	2800	2800	0
SC	2950	3000	2200	3400	54.55
TX	2540	2890	3100	3000	(3.23)
VA	2805	3130	2100	2900	38.10
U.S.	2404	3029	2561	3159	23.35

Chart 1

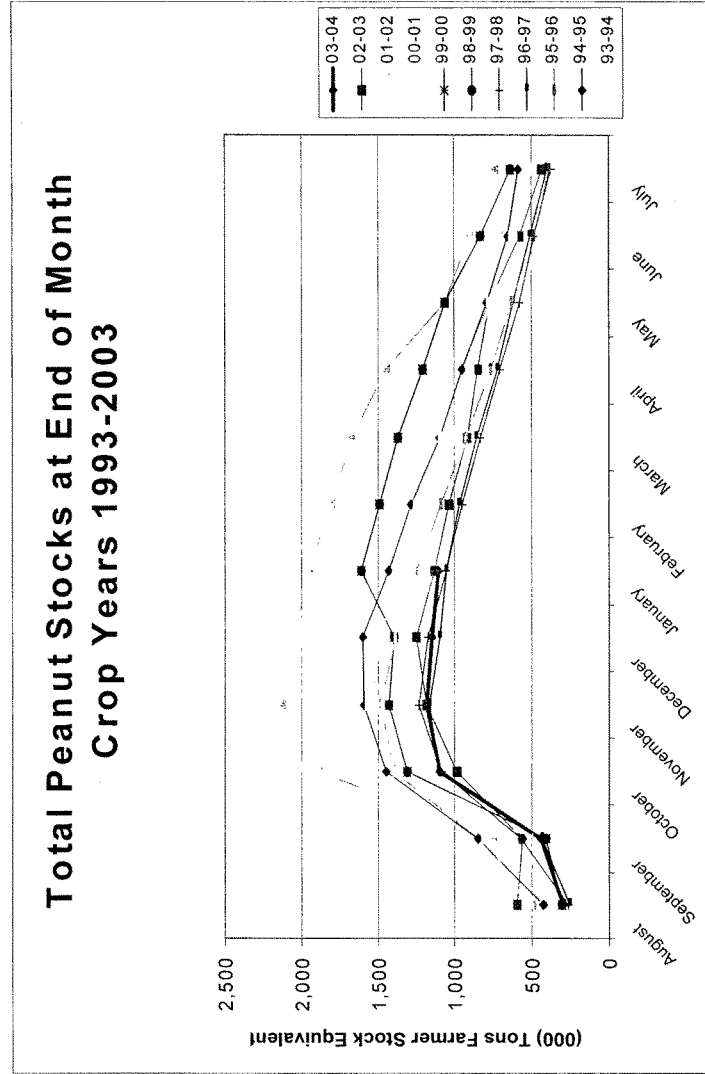
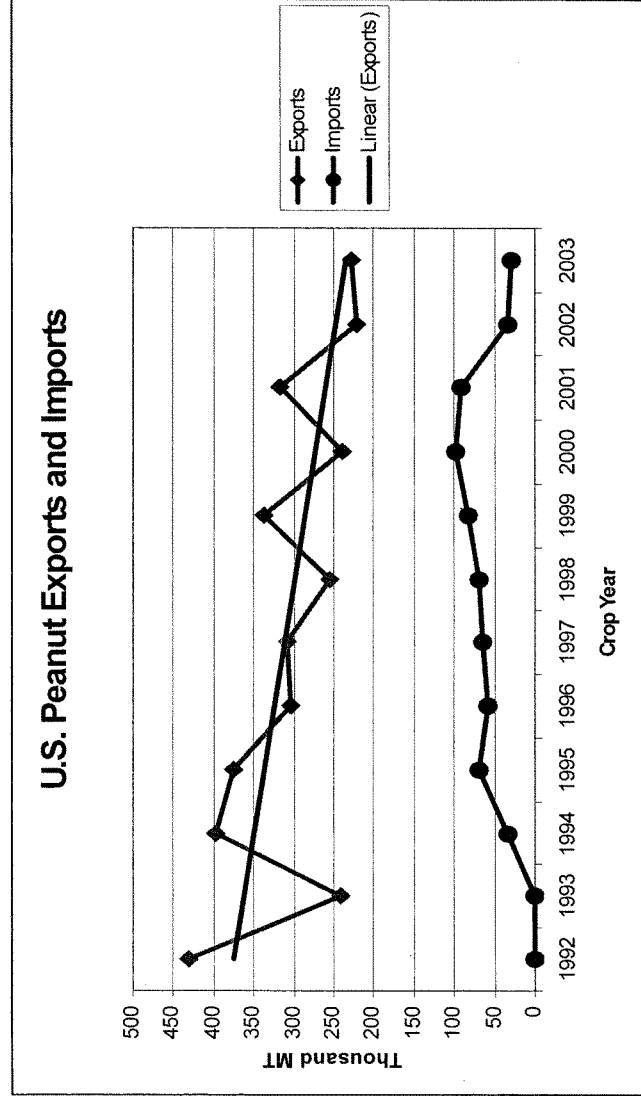


Chart 2



Note: 1992, 1994, 2001, and 2003 crops were all at 1.9 million tons (large crops). The 1998 crop was at 1.8 and 1999 was at 1.7 million tons. All other years ranged between 1.5 and 1.6 million tons.

SUPPLEMENTAL QUESTIONS FROM MR. STENHOLM

Questions for: Floyd D. Gaibler, Deputy Under Secretary for Farm and Foreign Agricultural Services

1. **What factors does USDA consider in setting the loan repayment rate for peanuts?** The 2002 farm bill directed USDA to set the loan repayment rate for peanuts at a level that minimizes program costs and that allows peanuts to be sold freely and competitively in both the U.S. and world markets. **What is the relative weight given to each of these two broad objectives in setting the repayment rate?**

The Department of Agriculture (USDA) sets the weekly loan repayment rate at a level that is deemed to be the prevailing market price for peanuts, as explicitly stated in USDA's weekly press releases announcing the rates each Tuesday. In addition to obtaining domestic and world peanut prices, USDA obtains supply and demand information from the Foreign Agricultural Service (FAS) and the World Agricultural Outlook Board (WAOB). The market price is the repayment level that minimizes program costs and allows peanuts to be sold freely and competitively in both the United States and world markets.

2. **To what degree is the U.S. peanut loan rate affecting U.S. export competitiveness in world markets, specifically in Europe? Can you comment on reports that Chinese peanuts sell at lower prices in the European market than U.S. peanuts do?**

The 2002 Act established a loan rate for peanuts at \$355 per ton, in-shell basis. At this level, the loan rate itself is not likely a significant factor in U.S. export competitiveness in world markets (including Europe), since it is the market price, and not the loan rate, that determines a seller's competitiveness. By its very nature, the nonrecourse marketing assistance loan program (MLP), which allows the loan to be repaid at the lower of: (1) the loan rate plus applicable charges, or (2) the alternative payment rate (market price), further reduces the likelihood the loan rate will interfere with a seller's competitiveness in world markets.

China is the world's largest producer of peanuts (16.3 million short tons in 2002), producing more than twice as much as the second largest producer – India. The United States is third, producing approximately 2 million short tons in 2003. Over half of China's domestic production is used for crushing, and one-third for domestic food use, 8 percent for export and the rest for seeds and other purposes. While the quality of Chinese peanuts is generally good, U.S. peanuts frequently earn a premium in world markets. This premium typically reflects not only the higher quality of U.S.-origin peanuts, but also the dependability of U.S. suppliers in satisfying contractual arrangements.

3. **What effect would lowering the peanut loan rate and/or loan repayment rate have on U.S. exports? By how much would the rate need to fall before U.S. peanut exports return to levels seen under the "additional" component of the previous peanut quota program? How much would such a policy change cost USDA's Commodity Credit Corporation?**

The 1996-2001 average annual export level was 325,000 short tons, in-shell basis. For 2002 and 2003, the average export level is forecast at 250,000 tons. The season-average price

received averaged 18.2 cents per pound for the 2002 crop year and is currently forecast at 19.25 cents per pound for the 2003 crop year, both above the loan rate of 17.75 cents per pound. USDA analysis suggests that the sales prices would need to be at least \$50 per ton below the \$355 loan rate in order to raise exports by the 75,000 tons needed to reach the 325,000-ton average that took place under the 1996 law. Increasing the LDP/MLG by \$50 per ton on a 1.87-million ton annual crop would raise the Commodity Credit Corporation's (CCC) costs by about \$93.5 million per year, or by \$1,250 per ton of additional exports—about 4 times their market value.

4. Please explain why peanut imports have fallen dramatically since the 2002 farm bill provisions took effect?

U.S. imports of peanuts have fallen sharply since implementation of the 2002 Act because the domestic support rate, which established the U.S. price for peanuts for domestic edible use, has fallen sharply, thereby reducing the incentive to import foreign peanuts. Under the 1996 farm bill, the support rate for domestic edible peanuts was \$610 per short ton, in-shell basis. This level of support was about twice the world price for peanuts. Countries (primarily Argentina) with access to the U.S. market through import quotas shipped all that was allowed under their quota allotments because they could get about twice as much in the United States for their peanuts as anywhere else in the world. Under the 2002 Act, the loan rate for peanuts was reduced to \$355 per ton. The decline in the loan rate has reduced the incentive to ship peanuts into the U.S. Prior to implementing the 2002 Act, Argentina's annual quota was filled immediately when it opened because more peanuts were stored in bonded warehouses awaiting the opening than were allowed under the quota. In the year beginning April 1, 2003, Argentina shipped only 36 percent of its allowable quota; the first time Argentina did not fill its quota.

5. Now that the peanut quota buyout has been largely implemented, what does USDA project for peanut program costs looking forward the next few years?

It will be very difficult to assess projected costs for peanuts since program benefits are inversely related to market prices. Current domestic consumption of peanuts (August-February) increased by 8.8 percent over 2003. Should U.S. consumption continue at the current pace and commodity prices continue strengthening for crops that compete for acreage with peanuts, peanut prices will remain above the loan rate and MLP outlays will remain insignificant.

For the 2002 crop, absent the \$1.24 billion in peanut quota buyout payments, outlays for counter-cyclical payments are estimated to be \$195 million and outlays for direct payments are estimated to be \$73 million. Outlays for storage, handling and associated costs are estimated to be \$20 million. Loan deficiency payments (LDP) and marketing loan gains (MLG) are estimated to total \$26 million and \$23 million, respectively. Under the President's budget for FY 2005, USDA forecast CCC outlays for peanuts would average \$278 million annually during FY 2005-10.

6. What is the status of the work of the Peanuts Standards Board? Have you received any complaints about the Board? What kind of feedback have you received about the Board?

The 2002 Act terminated the existing Peanut Administrative Committee (Committee) and required the Department to appoint a new Peanut Standards Board (Board) comprised of members of the peanut industry. Unlike the Committee which locally administered the peanut marketing agreement, the Board's role is limited to advising the Secretary regarding the establishment of quality and handling standards for domestically produced and imported peanuts. The Secretary also considers other sources of public input (e.g., producer cooperatives and associations) with respect to the quality standards. Nevertheless, the Board has been one source of useful information to the Department in its development of the first quality standards issued through the rulemaking process in September 2002, and its subsequent revision of those rules in 2003. Since the first two meetings of the interim Board in July 2002, the Department has consulted with the subsequently appointed Board in April 2003 and February 2004.

The limited feedback regarding the Board has been mixed. Shellers have praised the Department for abiding by the suggestions of the Board, and a representative of the shellers has stated that the Board is more responsive to sheller concerns than was the case with the Committee. We are aware that some peanut growers have expressed disappointment in the Board in comparison with the former Committee. They cite a lack of industry participation beyond Board members, and believe there could be greater acknowledgment by the Department of comments submitted on peanut issues. The Department takes these concerns very seriously and is taking steps to both attract a wider audience at Board meetings and provide greater feedback to industry on comments received.

7. Mr. Gaibler, in your written testimony, you stated that "price discovery in the peanut sector has been complicated by a lack of transparent, consistent, market-oriented data on transactions." However, USDA is planning to eliminate Form 1007 which records the grade and dollar value of each load of peanuts delivered. It seems that this information would be helpful in providing important crop data. **Why is Form 1007 being eliminated?**

The Inspection Certification and Calculation Worksheet commonly referred to as FSA Form 1007, is used by peanut buying point personnel to determine a value for each load of peanuts. The value is based on grade factors recorded on another form, FV-95, Federal State Inspection Service Peanut Notesheet, used by Agricultural Marketing Service (AMS) grading officials. The value calculated on FSA Form 1007 is based on premiums and discounts that are applied by FSA to the loan rate, therefore FSA Form 1007 has little significance for price discovery. Grading factors from the FV-95 are transferred to the FSA Form 1007 and the Warehouse Receipt. It is important to note that marketing assistance loans for peanuts are based on Warehouse Receipts, not the FV-95, nor FSA Form 1007.

Currently, there are no plans to eliminate FSA Form 1007 for the 2004-crop year. However, given technological advancements and the ability to streamline peanut marketing loan processing, USDA is planning to phase-out the use of FSA Form 1007 by the 2005-crop year. We plan to provide the industry with an electronic template should the industry decide to continue its use. As we progress, we will be seeking input from interested sectors of the peanut industry.

As I stated in my testimony, in 2003, FSA made available electronic warehouse receipts. One company used electronic warehouse receipts last year out of various warehouse locations within Texas, Oklahoma, Virginia, and North Carolina. A total of 793 electronic receipts were

issued, of which most were pledged as collateral for a marketing assistance loan. Transactions with electronic receipts have been very successful.

There are many benefits to using electronic warehouse receipts including relatively modest transaction fees that may be offset with paperless transactions and reduced errors. It is expected that more companies will make use of electronic warehouse receipt services beginning with the 2004 crop of peanuts, for the following reasons:

- reduction in legal risk, due to audit trails and increased validations;
- buyers and sellers receive immediate acknowledgement when a bid or offer is submitted, saving them time and money;
- increases competition as buyers and sellers utilize up-to-the-minute information on peanuts stored in CCC loan inventories;
- eliminates inefficiencies and streamlines processes, as there is no need for mailroom handling or electronic data entry;
- reduction in errors, in that edits and validations are built in to prevent incomplete and incorrect data from being transmitted; and
- added security, in that electronic warehouse receipts cannot be lost in the mail, misplaced in-house, or destroyed.

8. Mr. Gaibler, in your written testimony you indicated that USDA is still working out issues with the marketing loan program, specially the method by which the loan repayment rate is calculated. **Do you believe USDA has sufficient authority to accurately set the repayment rate, or do you believe the Department lacks statutory authority for price discovery?**

USDA does have the statutory authority, similar to other loan eligible commodities, to accurately establish the peanut loan repayment rate when reliable price information is attainable. As I stated in my testimony, USDA convened an Interagency Peanut Task Force in July of last year made up of nine federal agencies to fine-tune our price discovery process, focusing on both domestic and international prices. The Peanut Task Force determined that the most critical component for a successful marketing loan program is accurate and timely price information, and that component remains elusive. Further, it was determined that price discovery in the peanut sector has been complicated by a lack of transparent, consistent, market-oriented data on transactions. Contributing to the lack of transparency is the small and highly competitive structure of U.S. peanut buyers. Also, unique marketing patterns include: (1) a lack of on-farm storage capacity; (2) provisions mandating government payment for storage and handling; and (3) a market in which participants were accustomed to numerous years of a quota price support system.

USDA will continue to commit resources to work with the peanut industry to improve price discovery mechanisms and provide more price transparency to both domestic and international markets. Further, USDA has contracted with a third party to examine the current peanut market price discovery methods, options for improving price discovery for peanuts, and program implementation enhancements. We are hopeful that these efforts will resolve our price discovery challenges. However, if that does not occur, the Department will reserve the option of requesting statutory authority to require mandatory price reporting for peanuts.

9. In a producer's written testimony, he stated that USDA no longer collects assessments for the national peanut board and state associations. **Why did USDA stop collecting the assessments? And, are there any plans for USDA to, once again, collect the assessments?**

Following enactment of the Commodity Promotion, Research and Information Act of 1996 (the Act), the Agricultural Marketing Service (AMS) instituted a rulemaking action with respect to the establishment of a Peanut Promotion, Research, and Consumer Information Order (Order). The Order provided for the collection of an assessment of 1 percent of the price of farmer stock peanuts sold to first handlers. Section 513(5) of the Act provides:

The term "first handler" means the first person that buys or takes possession of an agricultural commodity from a producer for marketing. If a producer markets the agricultural commodity directly to consumers, the producer shall be considered to be the first handler with respect to the agricultural commodity produced by the producer.

Failure of a "first handler" to collect the assessment subjects the "first handler" to statutory sanctions. Under the peanut marketing quota program in place at that time through enactment of the 2002 Act, area marketing associations were an integral part of the peanut quota program; most peanut producers delivered their peanuts to the associations and the associations were responsible for the marketing of the peanuts. Accordingly, these associations were considered to be "first handlers." The regulations that set forth the assessment provisions provided:

(d) For peanuts placed under loan with the Department's Commodity Credit Corporation, each area marketing association shall remit to the Board the following:

(1) One (1) percent of the initial price paid for either quota or additional peanuts no more than 60 days after the last day of the month in which the peanuts were placed under loan; and

(2) One (1) percent of the profit from the sale of the peanuts within 60 days after the final day of the area association's fiscal year.

The marketing associations, and not the Commodity Credit Corporation (CCC), were required to submit the assessments to the National Peanut Board. However, with the abolition of the peanut quota program by the 2002 Act, these marketing associations no longer play as dominant role in the peanut program since producers now obtain marketing assistance loans, or loan deficiency payments, directly from CCC and market their own peanuts without using the associations.

"First handlers" who purchase peanuts from the producer are still required by the Act to submit the assessments to the National Peanut Board. CCC, the same as any other lender, is not involved in the marketing of the peanuts, does not purchase the peanuts and is not a "first handler" under terms of the Act. Thus, with respect to the 2002 crop, the first crop covered by the 2002 Act, these "first handlers" who purchased peanuts from producers were required to submit the assessments with respect to approximately 1.6 million tons of peanuts. With respect to the approximately 2,870 tons of peanuts forfeited to CCC (approximately .18 percent of the 2002 crop), CCC requires buyers of its peanuts to remit the assessment directly to the National Peanut Board. To the extent "first handlers" (and producers who sell directly to consumers) are complying with the Act, the National Peanut

Board is receiving assessments with respect to 100 percent of the 2002 crop that is marketed. Similarly, 100 percent of the assessment should be collected for the 2003 and subsequent crops.

Because we assume that all parties are currently complying with the law, the only fundamental change that would occur with respect to the National Peanut Board, is when the assessment is received. Previously, in the pre-2002 Act era, the majority of the assessment was required to be submitted within 60 days of the issuance of a CCC price support loan and the remaining portion 60 days after the association's fiscal year. Now, 100 percent of the assessment is remitted when the peanuts are sold. Changing the required submission to when CCC makes the loan would move a portion of the assessment to an earlier payment date but would not affect the total amount remitted.

Before any statutory change is made, a decision must be made with respect to the amount of the assessment that CCC will be directed to deduct from the proceeds of the marketing assistance loan or the loan deficiency payment. Since its inception, the assessment has been a percentage of the price received for the sale of the peanuts. If peanut market prices are above the CCC loan rate, as they are currently, requiring a CCC to remit a percentage of the loan proceeds would result in reduced assessments since the assessment is currently determined as a percent of the price paid by the "first handler." Again, requiring the "first handler" to remit the difference in assessments would, at the extreme, produce a double collection of the assessment and, at a minimum, complicate completion of the sales transaction. With respect to a loan deficiency payment, such payments are made when the loan repayment rate is less than the loan rate. Consideration should be given to the equity of calculating the assessment on the market price versus the marketing assistance loan rate.

If the Act were changed to include CCC in the definition of a "first handler", consideration should be given to the impact that may occur on producers. Currently, all "first handlers" know that assessments have not been collected with respect to peanuts that are acquired from a producer and they know that when they purchase peanuts from CCC the assessment must be remitted. By requiring CCC to be considered a "first handler," the purchaser would be required to obtain information from the seller as to whether some, or all, of the peanuts have been the subject of an assessment collection. Because the purchaser may be the "first handler" on a portion of the quantity purchased, the purchaser may likely collect the assessment on the entire quantity for ease of completing the purchase in order to avoid the sanction provisions of the Act. The producer will have paid the assessment twice. It is our understanding that "first handlers" have developed accounting and computer systems to effectively collect these assessments from all producers; we do not know the costs that would be incurred by the "first handlers" to change these systems.

In summary, we do not believe that altering the current method of peanut assessment collection will result in increased funding for the National Peanut Board. We do believe that the mere shifting of receipt of a portion of the assessment to an earlier date does not outweigh the increased burden, and costs, that will be placed on peanut producers, "first handlers" and FSA.

10. In their written testimonies, many producers expressed dissatisfaction with the federal crop insurance program with respect to the peanut program. The Western Peanut Growers Association stated that federal crop insurance has failed to keep pace with the changes the peanut program has undergone. The North Carolina Growers stated that the crop insurance products offered are not adequate. In both cases, the Risk

Management Agency (RMA) has indicated that policies will not be in effect until 2006. **What can you do to speed up this process?**

As the result of the 2002 Act's repeal of the Peanut Support Price Program (Quota Peanuts), the Peanut Crop Insurance Program was converted to an actual production history based program consistent with other crops effective for the 2002 crop year. Changes to the policy provisions were not necessary as the current peanut crop provisions provided the basis to establish the insurance guarantee based on the producer's actual production history. At the request of peanut producers, RMA is considering publishing a proposed rule that would modify the current optional unit provisions for peanuts to be based on section, township and range in applicable areas of the U.S., rather than the current basis of Farm Service Agency Farm Serial Numbers. Additionally, some peanut growers have requested RMA to consider offering peanut producers the option to insure their peanuts on the basis of a contract price. In its proposed rule, RMA will seek comments from interested parties regarding whether there is a sound basis to offer insurance coverage using an individual producer's contract price. However, no specific change related to price is likely to be included in the proposed rule. Subject to public comments, RMA plans to make the change in unit division effective for the 2005 crop year. Based on comments received in the proposed rule, any potential changes to allow for peanuts to be insured based on a contract price would require development and could not be effective for the 2005 crop year.

11. Because of the large peanut crop this year, are there concerns about a large amount of forfeitures?

Two of the producers, in their written testimonies, stated that they would like to have the Farm Operator ID Card reinstated. **Why were those cards eliminated? And, are there any plans to bring them back?**

The 2003 U.S. peanut crop had both a record high yield and unusual high quality. In general, large crops increase the risk of forfeitures because they may push prices well below the loan rate. However, relatively poor crops in other major producing countries are offsetting the large U.S. crop, so that the prospect of forfeitures is greatly diminished. In addition, the alternative loan repayment, established under the 2002 Act's MAL program, should further reduce the prospect of forfeitures.

Historically, across all loan commodities, if marketing loan programs function properly, only a very small percentage of loan collateral is forfeited to CCC. However, the marketing loan program for peanuts is different than most other major commodities in that CCC, by statute, must pay storage, handling and associated costs for peanuts placed under loan. Also unlike other major commodities, peanut producers maintain very little, if any, on-farm storage.

The intent of Congress when authorizing language for CCC to pay storage, handling and associated costs was to prohibit the cost of storage from being transferred to peanut producers. Therefore, the risk of storage, and any price associated with that risk, has been shifted to CCC. With storage fees paid by the government, as long as peanuts are held under loan, and an existing guarantee that quality degradation under storage will not impact the grower, there is an incentive to keep peanuts under loan in subsidized storage until they are ready to be shelled or processed. By virtue solely of legislation, many peanuts, if not all, will be placed under loan to defer costs associated with storage and handling. With this incentive, there will be little active trading and therefore little, if any price discovery. In practice this has the effect of slowing down the marketing of peanuts.

In the previous peanut program, the Farm Operator ID Card (FSA-1003) was used to identify each load of peanuts being brought to the buying point, to account for peanuts identified as quota peanuts and to imprint the producer's information on the AMS Inspection Form FV-95 at the time of inspection. With the quota program removed, FSA has no plans to re-institute the FSA-1003.

12. Mr. Gaibler, in your written testimony, you stated that, while there is no transparent price discovery for peanuts, USDA has learned that the New York Board of Trade is examining the potential of trading peanuts on the exchange. Trading peanuts on an exchange might represent the best method of price discovery. Should this not happen, the question is: **How accurate a substitute might Electronic Warehouse Receipts be?**

Market price and loan values are different. Market price is the price at which peanuts are traded given prevailing supply and demand circumstances. Loan value is the value, determined by statute that CCC places on peanuts that are offered for loan collateral in the MAL.

Electronic warehouse receipts are not a form of price discovery for current market prices and, therefore, would not be a substitute for collecting prices in lieu of prices for peanuts that would be traded on the New York Board of Trade. The value of the peanuts recorded on the warehouse receipt is the product of the loan value times the pounds of peanuts assigned to the warehouse receipt.

13. **What is the range of error for current repayment price calculations? How much might that range be reduced by using exchange-trade prices or electronic warehouse receipt prices?**

Current loan repayment rates are not a forecast of where prices are headed, but rather a reflection of the prevailing market price for peanuts sold domestically and internationally. The ability to gauge error is tied directly to the accuracy of reported prices. Currently, the peanut industry is not required to publicly post prices or sales information, and peanuts are not traded on commodity exchanges like many other crops under the marketing loan program. Weekly and monthly peanut prices are reported to USDA through a telephone polling process on a voluntary basis with industry representatives. USDA relies on the peanut industry to provide reliable information on domestic peanut prices and sales. If there are errors, they are in the prices reported to USDA and not with the loan repayment rate calculations. Misreporting of accurate price information makes USDA's task of calculating the loan repayment rate much more difficult. Errors in voluntary price reporting are usually attributed to very low volumes of trading and spot price quotes. These inconsistencies are not representative of the average prevailing prices we would prefer in setting and considering a weekly loan repayment rate. We continue to work with the peanut industry to improve price reporting. We are not aware of any error in the current loan repayment price calculation.

Should peanuts be traded on an exchange in the future or if mandatory price reporting were mandated by Congress, this would be the first verifiable and transparent price mechanism available for USDA to gauge prevailing peanut prices used to establish weekly loan repayment rates.

The electronic warehouse receipt is an economical means to reduce paperwork and errors. However, it is not a form of price discovery for current market prices. Electronic warehouse receipts merely are an electronic means to record loan value, carryout transactions, and track quantities of commodities under the marketing loan program.

14. Should Congress enact mandatory peanut price reporting? Would that improve the accuracy of determining loan repayment prices?

As I stated in my testimony in July of last year, USDA convened an Interagency Peanut Task Force to fine-tune our price discovery process, focusing on both domestic and international prices. We assembled staff resources from 9 agencies in USDA. The Peanut Task Force determined that the most critical component for a successful marketing loan program is accurate and timely price information and that component remains elusive.

Further, it was determined that price discovery in the peanut sector has been complicated by a lack of transparent, consistent, market-oriented data on transactions. Contributing to the lack of transparency is the small and highly competitive structure of peanut buyers. Also, unique marketing patterns include: (1) a lack of on-farm storage capacity; (2) provisions mandating government payment for storage and handling; and (3) a market in which participants were accustomed to numerous years of a quota price support system.

On October 22, 2003, USDA convened a meeting with representatives of all segments of the peanut industry, including growers, shellers, manufacturers and brokers. The purpose was to discuss challenges related to price discovery and transparency and request their cooperation in developing solutions. In subsequent meetings with the shelling segment, USDA requested more timely price reporting to enhance price discovery. USDA sought to improve on that price series and receive weekly verifiable price data, as well as prices by type of peanut and on a regional basis. However, the shelling segment indicated that rather than provide input to allow National Agricultural Statistics Service (NASS) to collect verifiable weekly price data, USDA should rely more heavily on shelled prices and prices from international sources.

In order to facilitate efforts to improve price discovery for peanuts, USDA recently contracted with a third party to review the peanut industry. Specifically, the contractor will conduct a study and provide an analysis of the peanut industry, as it relates to price discovery and price transparency and provide suggested alternatives to the current methods used for price discovery/transparency.

We are ardently committed to continuing work with the peanut industry to enhance price discovery and transparency. Should our efforts fail, mandatory price reporting may be necessary to ensure USDA is collecting the best available information to accurately establish peanut loan repayment rates. Mandatory price reporting could also enhance National Agricultural Statistics Service information collection in determining season average prices used to calculate counter-cyclical payments for peanuts.

15. The loan level by type for an average grade ton of 2003 crop peanuts will be: Virginia-type peanuts: \$353.27; Runner-type peanuts: \$355.98; Spanish-type peanuts: \$338.67; Valencia-type peanuts: \$353.27. **What other loan rate modifications do you propose?**

As I stated in my testimony, USDA is evaluating the feasibility and potential benefits of implementing peanut loan rates by type using the wheat by class model. County loan rates for the 2002 wheat crop were updated and, more importantly, differentiated by each of five classes of wheat: durum; hard red spring; hard red winter; soft red winter; and soft white wheat. The updates and differentiation by class were done so that the county loan rates would better reflect recent market price relationships among counties and among classes, and to reduce the significant LDP-rate disparities that had existed in prior years when all-wheat loan rates had been used. While no LDP-rate disparities currently exist in peanuts, new domestic market price information obtained during marketing of the 2002, 2003 and 2004 peanut crops will be used to analyze market price relationships for the various types of peanuts.

Questions to Mr. Floyd Gaibler, Deputy Under Secretary for Farm and Foreign Agricultural Services, United States Department of Agriculture from the Office of Jim Marshall

1. I am seeking additional information about the USDA loan repayment rate for peanuts. According to testimony from Mr. Jimmy Cheney with the Southern Peanut Farmers Federation, there is concern that current formula is not accurate and hurting peanuts farmers in Georgia. Can you please provide me more information about how this loan repayment rate was established? Do you expect that this rate will change over time and how will these adjustments be made? Do you currently review foreign prices as part of your rate making process?

The Department of Agriculture (USDA) sets the weekly loan repayment rate at a level that is deemed to be the prevailing marketing price for peanuts, as explicitly stated in USDA's weekly press release announcing the rates each Tuesday. In addition to obtaining domestic and world peanut prices, USDA obtains supply and demand information from the Foreign Agricultural Service (FAS) and the World Agricultural Outlook Board (WAOB). The loan repayment rate is calculated using available domestic and international sales prices for peanuts. A weighted average is computed using the prices collected each week. The rate will change with the fluctuation in prices from week to week. The announced repayment level minimizes program costs and allows peanuts to be sold freely and competitively in both the United States and world markets.

2. In addition, I understand that there is special problem related to the peanut segregation issue for peanut farmers in the Southeast. The loan rate set by the USDA is 65 percent below the legislated loan rate of \$124.45. In addition, the method of determining Segregations 2 and 3 has not changed for more than 40 years. It seems reasonable to me that the USDA should periodically review these rates and makes adjustments. After all the cost of producing these peanuts has certainly increased, so it would seem logical to me that this rates should also increase over this same time period. Also, can you give me any information on when Segregation 2 and 3 rates will be recalculated? If USDA is unwilling to review these rates, I believe that Congress might decide it was necessary to become involved and require that these rates be periodically reviewed based upon a set timeline in legislation.

As I stated in my testimony, upon determination that peanuts are Segregation III (Seg III) peanuts, the Farm Service Agency applies a discount of 65 percent of the loan value, (\$124 per ton) to the peanuts when pledged as collateral for CCC

loan. This is consistent with discounts applied to other commodities under the marketing assistance loan program (MLP).

If CCC increased the loan rate on Seg III peanuts, CCC outlays are likely to increase and forfeitures may be encouraged. To illustrate the potential CCC financial exposure, Attachment 1 shows discount loan rates ranging from the current, \$124 per ton, to \$200 per ton. Previous year's actual volumes of Seg III peanuts are applied to each loan rate. This may understate the increase in budget exposure since a higher loan rate could encourage producers to forfeit additional Seg III peanuts to CCC.

The purpose of the 65 percent loan discount is to protect the value of CCC loan collateral. At the time peanuts are delivered to the buying point producers are given an option to sell Seg III peanuts at the discounted value or clean and re-grade them to determine if they will grade a higher value.

The USDA Interagency Peanut Task Force is currently reviewing this issue. Upon completion of their review, USDA will ask the Peanut Standards Board, made up of industry representatives, for recommendations.

3. I am also concerned about the impact of future trade agreements on U.S. peanut producers. I would like to see that future agreements help U.S. producers to sell peanuts and value-added peanut products abroad. Are you aware of any trade agreements that have been recently negotiated that would adversely impact peanut farmers?

The USDA works closely with U.S. peanut industry representatives in establishing the U.S. position during free trade agreement (FTA) negotiations. All segments of the U.S. peanut industry, including growers, are members of the Department's Tobacco, Cotton, Peanut and Planting Seed Agricultural Technical Advisory Committee for Trade (ATAC). This committee meets regularly to be briefed by U.S. Government officials on current trade developments, including the status of FTA negotiations, and to provide the U.S. peanut industry's position with respect to these negotiations. Committee comments are documented and submitted for record to the Secretary of Agriculture. Attachment 2 is a review of peanut provisions of recently negotiated trade agreements. Under several of the recently negotiated trade agreements the Australia, Chile, Singapore and Jordan FTA's, the U.S. is granted immediate duty-free access for peanuts and products. In contrast, Australia, Chile, Singapore and Jordan are granted limited access that grows over several years.

4. I would also like to know whether or not domestically produced peanut products qualify as finished products under the USDA's Market Assistance Program? To me, these products should be

good sellers and should be well received abroad. If these products are not eligible for this program, please explain to me the rationale for this exclusion.

All U.S. produced peanuts and peanut products are eligible to be promoted under the Market Access Program (MAP). The determination of which products to promote is made by representatives of the American Peanut Council, the National Peanut Board and the Foreign Agricultural Service through an ongoing collaborative strategic planning effort. All sectors of the U.S. peanut industry are represented in that process including producers, shellers, brokers, and manufacturers. Recent programs have promoted shelled and in-shell peanuts, peanut butter, peanut flour and aromatic peanut oil.

In addition to product promotion, the industry's strategy includes exchanges of technical information with foreign trade and government contacts, trade servicing to encourage increased use and promotion of U.S. peanuts by foreign importers and food manufacturers, distribution of peanut-related health and nutrition information to foreign health specialists and consumers, and responding to actual or potential trade barriers ranging from aflatoxin, allergenicity and acrylamide, to cadmium levels and pesticide residues.

5. I am also concerned about the number of personnel who are working on the peanut loan program at USDA. I know that there are no longer loan service agents available for peanuts, but I want to ensure that there are still sufficient personnel to serve peanut farmers. Do you feel that the current staffing levels are sufficient to meet the demand of peanut farmers in heavy production areas? Would it be wise to expand the number of personnel who are assigned to these areas so that during this compressed timeframe that all of these loans can be processed? What is your opinion on assigning additional loan service agents in certain high production areas in order to expedite loan processing? Will electronic warehouse receipts be available this year?

The Farm Service Agency (FSA) is continuously reviewing and adjusting staffing at FSA county offices to meet the delivery demands of all commodity programs. Currently, we believe that adequate staff is available to implement not only the peanut marketing assistance loan program, but all other FSA programs as well.

The Farm Security and Rural Investment Act of 2002 (the Act) did not designate a loan service agent as one of the entities where producers may obtain a peanut marketing assistance loan or a loan deficiency payment. The Act did provide that local county FSA offices, Cooperative Marketing Associations (CMA), or Designated Marketing Associations (DMA) may be utilized in providing peanut marketing loan program benefits. For the 2003 crop year, there were 4

approved CMA's and 2 approved DMA's. We are currently reviewing applications for the 2004 crop.

As I stated in my testimony, in 2003, FSA made available electronic warehouse receipts. One company used electronic warehouse receipts last year out of various warehouse locations within Texas, Oklahoma, Virginia, and North Carolina. A total of 793 electronic receipts were issued, of which most were pledged as collateral for a marketing assistance loan. Transactions with electronic receipts have been very successful.

There are many benefits to using electronic warehouse receipts including relatively modest transaction fees that may be offset with paperless transactions and reduced errors. It is expected that more companies will make use of electronic warehouse receipt services beginning with the 2004 crop of peanuts, for the following reasons:

- reduction in legal risk due to audit trails and increased validations;
- buyers and sellers receive immediate acknowledgement when a bid or offer is submitted, saving them time and money;
- increases competition as buyers and sellers utilize up-to-the-minute information on peanuts stored in CCC loan inventories;
- eliminates inefficiencies and streamlines processes, as there is no need for mailroom handling or electronic data entry;
- reduction in errors because edits and validations are built in to prevent incomplete and incorrect data from being transmitted; and
- added security because electronic warehouse receipts cannot be lost in the mail, misplaced in-house, or destroyed.

Given the previous success and industry acceptance of technological advances that streamline peanut marketing loan processing, USDA believes there are sufficient resources to properly implement the peanut marketing loan program.

Attachment 1

CROP YEAR	TOTAL TONS U.S. PEANUT PRODUCTION	SEG III (Short Tons)	PERCENT SEG III	LOAN RATE (Per Short ton)	CCC GAIN / LOSS
1990	1,801,825	175,053	9.72	\$124	\$1,050,953
				\$150	(\$3,500,425)
				\$200	(\$12,253,075)
1991	2,463,285	9,599	.39	\$124	(\$769,541)
				\$150	(\$1,019,115)
				\$200	(\$1,499,065)
1992	2,142,208	5,746	.27	\$124	(\$442,890)
				\$150	(\$592,286)
				\$200	(\$879,586)
1993	1,696,208	36,626	1.92	\$124	\$25,572
				\$150	(\$822,704)
				\$200	(\$2,454,004)
1994	2,123,728	3,315	.16	\$124	(\$11,134)
				\$150	(\$97,324)
				\$200	(\$263,074)
1996	1,830,603	6,420	.35	\$124	\$37,229
				\$150	(\$129,691)
				\$200	(\$450,691)
1997	1,769,690	45,950	2.6	\$124	\$1,563,480
				\$150	\$368,780
				\$200	(\$1,928,720)
1998	1,981,720	4,047	.20	\$124	(\$111,724)
				\$150	(\$216,946)
				\$200	(\$419,296)
1999	1,914,745	11,490	.60	\$124	(\$668,362)
				\$150	(\$967,102)
				\$200	(\$1,541,602)
2000	1,632,753	12,780	.78	\$124	(\$728,358)
				\$150	(\$1,060,638)
				\$200	(\$1,699,638)
2001	2,138,500	5,468	.26	\$124	(\$261,133)
				\$150	(\$403,301)
				\$200	(\$676,701)
2002	1,660,000	5,612	.34	\$124	(\$37,158)
				\$150	(\$183,070)
				\$200	(\$463,670)
2003	2,072,000	270	0.01	\$124	\$10,503
				\$150	\$3,483
				\$200	(\$10,017)

Attachment 2

Free Trade Agreements (FTA): Peanut Provisions**Australia FTA:**

- The United States establishes a tariff rate quota (TRQ) of 500 metric tons for peanuts that will expand 3% annually over 18 years (increases to 802 MT in year 17, unlimited in year 18). The over-quota duty will fall to zero in equal annual steps over 18 years.
- Australia has had a low duty for peanuts (5% ad valorem), peanut butter (5% ad valorem), peanut oil (5% ad valorem), and peanut meal (0% ad valorem). Australia will immediately remove all import duties on peanuts and peanut products.

CAFTA: (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua)

The United States Grants:

- Peanuts and peanut butter from all five countries gain preferential access. Over-quota duties on peanuts are removed over 15 years, with no reduction in the first 6 years, a 33 percent reduction divided over the next 4 years, and the remaining 67 percent reduction divided over the last 5 years. Peanut butter over-quota duties are removed in equal yearly steps over 15 years, while in-quota duties go to zero in the first year.
- El Salvador -- Is granted a TRQ for peanuts of 500 MT in the first year that increases in equal steps to 825 MT in year 14, and is unlimited in year 15. This quota is in addition to access to the "other" residual allocation under current peanut TRQ.
- Nicaragua -- Is granted a TRQ for peanuts of 10,000 MT in years 1 through 5, and which rises to 11,000 MT in the 6th year and increases linearly to 19,000 MT in the 14th year. The quota becomes unlimited in the 15th year. This quota is in addition to the "other" residual allocation under current peanut TRQ. Nicaragua is also granted a TRQ for peanut butter that increases in equal yearly steps from 280 MT in the first year to 644 MT in the 14th year, and becomes unlimited in the 15th year.

Central America Grants:

Costa Rica: Tariffs on peanut butter are eliminated immediately, while tariffs on peanuts range from 10 and 15 percent and are eliminated over 10 years.

El Salvador: Peanut butter and most peanut tariffs are eliminated immediately. The tariff on some prepared peanuts is set at 15 percent and is eliminated over 15 years.

- Guatemala -- Tariffs are set at 10 percent and are eliminated over 10 years.
- Honduras -- Tariffs are eliminated immediately.
- Nicaragua -- Tariffs are set at 5 to 15 percent and are eliminated over 5 to 15 years.

Chile FTA:

- The U.S. grants Chile immediate duty-free access for peanut meal, and agrees to phase-out the import duty on peanut oil over 5 years.
- The U.S. grants duty-free access for TRQ peanuts and peanut butter imported within the “other” quota allocation. The over-quota duties will be phased-out over 12 years.
- Chile grants the United States immediate duty-free access for peanuts and peanut products.

Singapore FTA

- The U.S. grants Singapore duty-free access for peanuts and peanut butter within-quota, and establishes a TRQ allocation of 1,000 kgs (1 MT) in 2004, which increases to 1,214 kgs in 2012. Over-quota duties for peanuts and peanut butter will be phased out over this period.
- The U.S. grants Singapore duty-free access for peanut oil, and peanut meal.
- Singapore grants the United States immediate duty-free access for peanuts and products.

Jordan FTA

- The U.S. grants Jordan duty-free access for peanuts and peanut butter within-quota, and establishes a TRQ allocation of 1,000 kgs (1 MT) in 2001, which increases to 1,450 kgs in 2009. Over quota duties will be phased out in equal yearly steps over this period.
- The U.S. grants Jordan duty-free access for peanut oil, and peanut meal.
- Jordan grants the United States immediate duty-free access for peanuts and products.

TRQ Allocations Granted Under FTA's (Metric Tons)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Jordan	1.0	1.1	1.1	1.2	1.2	1.3	1.3	1.4	1.5	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt
Singapore				1.0	1.1	1.2	1.3	1.5	1.6				Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt
Chile							554	581	608	635			716	743	770	797	825	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt
El Salvador					500	527	10,000	10,000	10,000	11,000	662	689	716	743	770	797	825	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt
Nicaragua					10,000	10,000	10,000	10,000	10,000	11,000	12,143	13,286	14,429	15,572	16,715	17,858	19,000	Unlmt	Unlmt	Unlmt	Unlmt	Unlmt
Costa Rica																		Unlmt	Unlmt	Unlmt	Unlmt	Unlmt
Guatemala																		Unlmt	Unlmt	Unlmt	Unlmt	Unlmt
Honduras																		Unlmt	Unlmt	Unlmt	Unlmt	Unlmt
Australia					500	515	531	546	563	580	597	615	633	652	672	692	713	734	756	779	802	Unlmt

STATEMENT OF TED HIGGINBOTTOM

Mr. Chairman and members of the committee:

I am Ted Higginbottom and I am the president of the Western Peanut Growers Association (WPGA). WPGA represents growers who produce approximately 80 percent of the peanuts grown in the State of Texas.

TEXAS PEANUT PRODUCTION

Texas began producing peanuts in commercial quantities during the 1930's, when growers switched from cotton to planting peanuts in many areas that were hit by boll weevils. However, it is the last two decades that have really brought great changes to Texas peanut production. Even though west Texas peanut acreage was only about 3,000 acres in 1980, peanut production in this area of Texas now exceeds 160,000 acres.

In 2002, Texas produced 868 million pounds of peanuts, which represents 26 percent of U.S. peanut production. Texas is the second largest peanut producing State, with its peanut production valued at \$158 million in 2002.

THE QUOTA PROGRAM RESTRICTED PEANUT GROWERS IN WEST TEXAS

We appreciate the opportunity to present our views on the new marketing loan program for peanuts, which was enacted as part of the 2002 farm bill. We believe that this new program offers peanut growers new opportunities that were not possible under the prior peanut quota system. The quota system became unsustainable in the face of mounting challenges, including the prospect of more peanut imports under current and future trade agreements.

Under the previous program, many of our members were unable to own or rent quota, and were precluded by law from selling peanuts in the domestic market. We believe the new program has served our area well by enhancing marketing opportunities, while providing a much-needed safety net for all producers. Therefore, WPGA would like to thank this committee for its great effort and leadership to establish the new peanut program.

THE NEW PEANUT PROGRAM BENEFITS THE ENTIRE PEANUT INDUSTRY

Specifically, we know that peanuts have moved to more productive land within Georgia, Texas, Alabama and Florida and have expanded to South Carolina.

We think this change to a marketing loan program has been good for peanut growers and has also benefited shellers and manufacturers. In fact, the committee should be commended for developing this program that has created a win-win situation for all three segments of the peanut industry.

Since Congressional approval of the new peanut program, west Texas has experienced a multi-million dollar peanut industry expansion. Throughout the South Plains of Texas, new warehouse construction and major renovations are being made on both existing and some previously vacated storage facilities. A new buying point also has been built from the ground up in Hockley County. Renovations have been made to grain facilities in Lamb and Gaines Counties. Furthermore, the area's shelling plant in Seagraves, Texas is greatly expanding its shelling and storage facilities, while an entirely new shelling operation is under construction in Terry County. So what was a struggling peanut sector is now thriving.

THE NEW PEANUT PROGRAM IS WORKING WELL

The transition to this new program has gone smoother than anyone could have hoped for. Much of the success in implementing this new program is a credit to the tireless work of USDA staff, and we applaud them for their great effort. There were some delays in getting some of the program paperwork out, which occurred in the early days of the new program, but such glitches are to be expected in making a truly dramatic change in the peanut program. Overall, we believe the new program is working well.

However, even with our strong support of the program, we do want to take advantage of this hearing to discuss a few concerns that will improve the operation of the program.

THE NEED FOR USDA TO COLLECT ASSESSMENTS

The primary issue that we would like the committee to address is USDA's unwillingness to collect national peanut board and State association assessments. USDA

had a decades old policy and practice of collecting State and national assessments that for some unknown reason it ended after enactment of the new peanut program.

I have served as a past chairman for both the National Peanut Board and the Texas Peanut Producers Board. By holding these past positions, I understand the hardships that are placed on organizations due to the lack of interest to help collect these Federal and State mandated assessments.

We are concerned that USDA has refused to assist grower associations in taking out the assessments that are critical to funding promotion programs developed by the National Peanut Board and for operating the State associations and commissions. There is no justification for USDA's denial of this vital service. This has become more important under the new peanut program, when the vast majority of peanuts go through the loan program.

Both the House and Senate Appropriations Committee have expressed their concern about the need for USDA to collect the assessments, by urging the Department to provide this service. The language contained in the fiscal year 2004 Agriculture Appropriations bill Committee Report (Report 108-193, page 53) of the House Appropriations Committee is as follows:

Historically, the Farm Services Administration (FSA) has deducted assessments mandated by Federal and State laws when peanuts go into the USDA loan program. These assessments are used to fund research and promotion programs that peanut growers vote for in referenda conducted pursuant to Federal and States laws.

In the course of implementing the new peanut program authorized by the Farm Security and Rural Investment Act of 2002, FSA for the first time, refused to collect the assessments when peanuts are put into the loan program. However, the changes in the law for the new program did not require FSA to cease collecting the assessments. The new policy created great confusion in the marketplace and has inhibited the ability of peanut growers to fund their research and promotion programs. It is especially confusing because private entities who buy peanuts from producers must comply with State and Federal law and collect these assessments. Therefore, the committee encourages FSA to revert to its previous practice of collecting assessments mandated by Federal and State statutes on peanuts when a producer places peanuts under loan. The committee directs FSA to report within 6 months how it plans to comply with the committee's directive.

Similarly, the language contained in the fiscal year 2004 Agriculture Appropriations Bill Committee Report (Report 108-107, page 84) of the Senate Appropriations Committee is as follows:

Historically, the Farm Service Agency [FSA] has deducted assessments, which are mandated by Federal and State laws, when peanuts go into the United States Department of Agriculture [USDA] loan program. These assessments are used to fund research and promotion programs that peanut growers vote for in referenda conducted pursuant to Federal and States laws.

In 2002, FSA did not collect any peanut promotion program assessments. Because of this inaction, great confusion occurred in the marketplace and inhibited the ability of peanut growers to fund their research and promotion programs. Therefore, the committee directs FSA to continue to collect assessments as mandated by Federal and State statutes when peanuts are placed under loan. Within 6 months of the date of enactment of this Act, FSA shall provide a report to the committee on its efforts to implement this directive."

We encourage this committee to also take an active role in requiring the USDA to again carry out its historical function of collecting such assessments.

HARVEST EXPENSE DEDUCTION

In addition, several of our growers have expressed their concerns to us about the need for certain production expenses to be deducted from their loan proceeds. These production expenses include custom harvesting, drying, cleaning and possibly seed costs. Such expenses were shown as deductions on USDA Farm Service Agency Form 1007 and buying points withheld these expenses from checks being issued for each grower's crop.

Since growers found this deduction under the former program to be advantageous, we ask the committee for its assistance in having this system reinstated, with FSA being the entity in position to make this function workable. This system seemed to work well for growers, buying points, shellers and financial institutions.

CROP INSURANCE CONCERNS

The last issue that I want to mention is a problem that I raised in testimony presented to the Subcommittee on General Farm Commodities and Risk Management on December 1, 2003. The crop insurance program for peanuts has not been changed to reflect the changes in the peanut program. Producers of other program crops have the ability to insure actual production history (APH) on acreage by unit or section, based on irrigated and non-irrigated practices. Peanuts are still operating under the program that was designed for the old quota system. Peanut farmers can only have a separate unit if the acreage is given a separate FSA serial number.

WPGA brought this issue to the Risk Management Agency's attention in March of 2003 during a meeting with RMA Administrator Ross Davidson and representatives from the RMA's Oklahoma Regional Office. During this meeting, RMA promised that the optional unit standard would be changed for the 2004 crop year. However, the contract change date for peanuts was November 30, 2003, and RMA failed to release a new policy for the 2004 crop year. Thus, we ask the committee to join us in pressing for this change in the 2005 crop year.

We believe that the new peanut program has a few issues that need to be addressed, but with the committee's help, we can sort through these concerns. I want to conclude by again commending the committee for its leadership in designing this new peanut program that provides U.S. peanut growers with the tools to become a very dynamic agriculture sector.

Thank you again for allowing us the opportunity to comment on the new peanut program. I look forward to answering any of your questions.

STATEMENT OF EVANS J. PLOWDEN, JR.

Mr. Chairman, let me thank you and the members of this committee for the opportunity for American Peanut Shellers to report to you our view of the Peanut Title of the 2002 farm bill.

Mr. Chairman, I have had the privilege of testifying before this committee on behalf of peanut shellers many times. I am confident that I can say that never before have I come before you with so few complaints.

The 2002 farm bill has been a substantial success for the peanut industry. Very few people, including me, thought that Congress could pass the farm bill consistent with the ambitious schedule initially set by Chairman Combest and Mr. Stenholm. But you did pass it. And you passed a good bill from the standpoint of our industry.

You sought to free the U.S. peanut industry so that it could compete with imports into the U.S. I am happy to say, you were successful. With the import year for WTO almost over, the TRQ for Argentina is only 36 percent filled. Under the old program it was 100 percent filled on opening day, April 1. The Mexican quota under NAFTA was only 25.8 percent filled for calendar year 2003. The U.S. industry, freed from the strictures of the old quota system, has proven that it can compete.

You sought to free the industry to grow its domestic market. I am happy to say, you succeeded. Domestic demand is growing. In fact, some believe that if the domestic demand continues to increase at the current level and production remains stable, our entire U.S. production would be used for domestic demand by the year 2009. If that should happen, it would be the first time in a very, very long time and is quite a tribute to the changes you made.

You sought to eliminate outdated regulations on the peanuts that shellers could buy and sell. I am happy to say that your efforts were successful. I want to commend Undersecretary Bill Hawks and the Agricultural Marketing Service for following the suggestions of the new Peanut Standards Board in freeing the U.S. industry, growers, shellers and manufacturers, to compete on a level playing field, both in the U.S. and abroad. The old Peanut Administrative Committee, which you eliminated, created restrictions that put the U.S. industry at a competitive disadvantage with respect to our foreign competitors and prevented numerous efficiencies. Undersecretary Hawks and AMS have followed your guidance, leveled that playing field and allowed us to be more competitive. There are numerous examples of these changes. One very important example is that now shellers may purchase segregation 3 peanuts from farmers. Under the old farm bill regulations, such purchases were prohibited. Modern technology allows shellers to sort out bad peanuts then utilize the good peanuts and continue to meet the stringent outgoing quality requirements that must be met for all peanuts before they may be shipped into the edible trade. Outgoing quality requirements remain and are more stringent than would be allowed under FDA regulations. Therefore, there has been no relaxation of food safety regulations, but rather a recognition that technology will allow these peanuts to be pur-

chased and, therefore, not penalize farmers. In some instances segregation 3 peanuts have been purchased for prices equaling those paid for segregation 1 peanuts. In all cases, they have been purchased at significantly higher prices than would be available to the farmer if he or she was forced to place the peanuts in the marketing assistance loan program.

There is more to do, but we are all working together to get there.

Of course, one problem that we all faced was that the new farm bill did not become law until May, 2002. This was after the planting decision for many crops, including peanuts, had been made. So there was precious little time for the huge adjustments that USDA, and particularly FSA, had to make. I am not going to be Pollyanna and tell you that everything worked smoothly during the 2002 crop. But I will say to you with absolute sincerity that everyone involved, Undersecretary J.B. Penn and his people, shellers, farmers, warehouse operators, buying point operators, FSIS and local FSA offices worked long and hard to reasonably, and I emphasize reasonably, work through the issues that arose. We could easily have had a train wreck with the 2002 crop, but we did not. A lot of people in a lot of places deserve all our thanks.

Crop Year 2003 was much smoother, but we still have some improvements to make. Thankfully, the people at USDA are working in good faith with the industry to solve the problems and make the appropriate improvements.

One area that continues to need improvement is the ability to more efficiently fund and pay off marketing assistance loans. We think structural improvements are needed for that to be accomplished. FSA offices in peanut producing areas have worked very hard, but the truth is that in some of our areas the harvest is so large and so compressed that the workload, on a short-term basis, is almost overwhelming.

I am aware that Congress chose to eliminate the use of loan service agents for peanuts. That decision was made to allow area associations to have the opportunity to make the transition to this new program. We all understand that. However, we believe that, particularly in some of the heavy production areas, everyone would benefit if Congress authorized the use of loan service agents to expedite the efficient loan process.

Another result of the freedom that the new program allows is that growers who were not legally allowed to produce peanuts for this U.S. edible market are now free to do so. We have seen new areas and new farmers enter the market, producing high quality peanuts for the trade at a profit to themselves.

In summary, Mr. Chairman, we think Congress did well with the new program. We think USDA has worked hard and reasonably to implement it. Consumption is increasing which gives the entire industry more opportunities for growth.

Again, thank you for this opportunity to present our views.

STATEMENT OF BILLY BAIN

Mr. Chairman, members of the subcommittee, my name is Billy Bain and I am a diversified row crop farmer from Dinwiddie County, VA. I currently serve as president of the Virginia Peanut Growers Association and am vice-president of Peanut Growers Cooperative Marketing Association.

I must say that the peanut program ushered in by the farm bill of 2002 has not been accepted well in my State. During the years leading up to 2002, we grew 75,000 acres of peanuts in Virginia. With the farm bill passage in the midst of planting and many farmers uncertain of whether there would be a new program or not, we dropped to 56,000 acres for the 2002 crop. We reduced to 33,000 acres for the 2003 crop. I hope this is the low point for us in terms of acres.

I am always questioned about the drop in our acres and why Virginia farmers seem to see things differently than peanut farmers in other States. The basic answer deals with the cost of production of the type of peanuts we grow, which is higher than that of any other State. Combine this with two bad years and the absence of crop insurance protection, and many of our farmers have chosen to stop planting peanuts or reduce acreage dramatically.

I must take this opportunity to address the crop insurance situation. Current policies are woefully inadequate and do not even cover our farmers' production costs. It seems that inquiries to RMA are always answered with the same response—and that is "there is not enough time to make policy changes for the upcoming crop year." If a crop insurance policy will not even cover production costs, then it is useless. We have repeatedly expressed an interest in a policy catered to either production costs or a contract price, but have not been successful thus far. Time is running

out for us—we need help now and ask for your assistance in adequately protecting our farmers.

As you can imagine, peanut producers from my State have not whole heartedly welcomed this program. I do have some particular items to bring to your attention, with some being successes but some being serious concerns.

I will start with the Peanut Standards Board, which has been a major disappointment. We in the peanut industry used to have a model peanut quality program, called the Peanut Administrative Committee, or PAC, which was embraced and recognized as a model by the industry, other commodities, and FDA. I am afraid we no longer can lay that claim with the advent of the Standards Board. The PAC meetings used to be a series of subcommittee meetings during which issues were thoroughly discussed and finally voted on at an annual meeting. Representatives of many industry segments attended these meetings in addition to the committee members. Now there is little to no industry participation, other than committee members. The grower members from my area have expressed that their participation on the committee is essentially useless, as their concerns fall on deaf ears and it usually appears that issues have been decided before the meeting even begins. When AMS requests comments on issues, these are submitted but have yet to be acknowledged or answered.

There are two major quality issues under discussion in the industry, with these being the possible elimination of the segregation 3 category and off flavor peanuts and how the system treats them. I do not believe these issues should be decided by the Standards Board, as I am afraid that decisions will be made which will be detrimental to our industry. USDA's concerns must be taken into consideration, and issues such as CCC inventory costs cannot be ignored. I take pride in the quality of peanut that I spend my money to produce. The US is world renowned for its quality. Unfortunately, I question whether the PAC's goal of even-more stringent quality guidelines has been carried forward to the Standards Board. I urge you to look into these pending issues before they also become rubber stamped without all parties being able to have their concerns thoroughly debated.

I do applaud your efforts to assist USDA in establishing designated marketing associations, or DMA's, for the 2003 crop year. One of the organizations on which I serve was the DMA for the V-C area, and it operated successfully for the benefit of the producers, the shellers who participated, and the association. I urge your continued oversight, however, in assuring that only legitimate producer cooperative associations are allowed to qualify and operate as a DMA. The process should not be opened to those who have a financial interest in the peanuts involved, as this was specifically stated as not being the intent of this committee.

I commend USDA for the implementation job done thus far. Progress has been made, as evidenced by the electronic warehouse receipts issued in our area this year. However, I caution that we cannot dismantle all tools that the industry has come to rely on. The national tonnage report was reinstated this year, after being absent during the 2002 crop year. It is a most useful tool for many in our industry. There has been much discussion about the elimination of the 1007 document, which is the growers evidence of the grade and dollar value of each load delivered. It is necessary that the grower continue to receive this form, as without it he would be at a loss to keep track of what he delivered and was paid for. I urge that the department continue the use of the 1007 form. Most growers would also prefer that the smart card, or at least the farm ID card, or the 1002, be brought back to assist producers and FSA in data collection.

As evidenced by these comments, we will continue to have issues on which critical decisions must be made. Any decision made by USDA, AMS, or any other agency on which industry input is needed must be opened to all participants, particularly all growers regardless of size or growing region. I urge USDA to continue the implementation process in a fair manner, remembering the equal needs of all those who are affected by their actions, but also keeping in mind the integrity of the program and protecting the interests of CCC.

I appreciate the chance to make these comments and our grower associations stand ready to assist you in any way necessary.

